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NAVAL POSTGRADUATE SCHOOL

Monterey, California



THESIS

**AN ANALYSIS OF THE DEPARTMENTS OF THE AIR
FORCE, ARMY, AND NAVY BUDGET OFFICES AND
BUDGET PROCESSES**

by

Brian R. Taylor

December 2002

Thesis Advisor:
Associate Advisor:

Jerry L. McCaffery
John E. Muttu

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**AN ANALYSIS OF THE DEPARTMENTS OF THE AIR FORCE, ARMY, AND
NAVY BUDGET OFFICES AND BUDGET PROCESSES**

Brian R Taylor
Captain, United States Marine Corps
B.S., United States Naval Academy, 1997

Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

**NAVAL POSTGRADUATE SCHOOL
December 2002**

Author: Brian R. Taylor

Approved by: Jerry L. McCaffery
Thesis Advisor

John E. Mutty
Associate Advisor

Douglas A. Brook
Dean, Graduate School of Business and Policy

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ABSTRACT

The objective of each of the budget offices of the Departments of the Air Force, Army, and Navy is to create a budget request to be submitted to the Secretary of Defense for incorporation in the President's Budget. The primary objective of this thesis is to familiarize the reader with the composition and responsibilities of these budget offices in order to demonstrate how they meet this objective. The focus of this thesis will be on the Department of the Navy and the subordinate of the two services of which it is composed, the Marine Corps. This thesis will use a macro to micro process providing an overview of the Planning, Programming, and Budgeting System at the Department of Defense level, a summary of each department's budget office to include their composition and responsibilities, a description of the appropriation processes of the Department of the Navy and a summation of the Marine Corps budgetary process. This process will ensure that the reader sees how a budget is developed, on all levels, from the all-encompassing DOD to the smallest of the services the Marine Corps. The process described in this thesis reflects the timelines in place prior to August 2001. Although the timelines have changed, the process remains essentially the same.

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TABLE OF CONTENTS

I.	INTRODUCTION.....	1
A.	PURPOSE.....	1
B.	BACKGROUND.....	1
C.	METHODOLOGY.....	2
D.	SCOPE.....	2
E.	THESIS OUTLINE.....	2
II.	PLANNING, PROGRAMMING, AND BUDGETING SYSTEM.....	5
A.	OVERVIEW.....	5
B.	HISTORY.....	5
C.	DOD PPBS.....	5
D.	PLANNING PHASE.....	6
E.	PRODUCT DESCRIPTIONS.....	6
1.	NSS.....	6
2.	NMSD.....	7
3.	JSPD.....	7
4.	CPR.....	7
5.	DPG.....	7
F.	PROGRAMMING PHASE.....	8
G.	PRODUCT DESCRIPTION.....	9
1.	POM.....	9
2.	CPA.....	9
3.	PDM.....	10
H.	BUDGETING PHASE.....	11
I.	PRODUCT DESCRIPTION.....	11
1.	BES.....	11
2.	PBD.....	11
III.	BUDGET OFFICES.....	13
A.	OVERVIEW.....	13
B.	DEPARTMENT OF THE AIR FORCE BUDGET OFFICE.....	14
1.	FMBI.....	15
2.	FMBL.....	15
3.	FMBM.....	16
4.	FMBO.....	16
5.	FMBP.....	16
C.	DEPARTMENT OF THE ARMY BUDGET OFFICE.....	16
1.	BUC.....	17
2.	BUO.....	18
3.	BUI.....	18
4.	BUR.....	19
D.	DEPARTMENT OF THE NAVY BUDGET OFFICE.....	19
1.	FMBE.....	20

2.	FMB1.....	21
3.	FMB2.....	21
4.	FMB3.....	22
5.	FMB4.....	23
6.	FMB5.....	23
E.	CONCLUSION	24
IV.	BUDGETING PROCESS.....	25
A.	OVERVIEW	25
B.	DEPARTMENT OF THE AIR FORCE BUDGET PROCESS	25
C.	DEPARTMENT OF THE ARMY BUDGET PROCESS	30
D.	DEPARTMENT OF THE NAVY BUDGET PROCESS	34
V.	DEPARTMENT OF THE NAVY APPROPRIATIONS.....	39
A.	OVERVIEW	39
B.	APPROPRIATION.....	40
1.	MILPERS	42
2.	O&M	43
3.	Procurement	45
4.	RDT&E	47
C.	BLUE-GREEN SPLIT.....	49
D.	MARINE CORPS APPROPRIATIONS	49
VI.	MARINE CORPS	51
A.	OVERVIEW	51
B.	CORE	51
C.	GREEN ACCOUNTS.....	51
D.	DISCRETIONARY FUNDS	53
E.	BUDGET ESTIMATE PROCESS	53
1.	Program Evaluation Groups (PEG).....	53
2.	Pom Working Group (PWG).....	55
3.	Program Review Group (PRG)	58
4.	Commandant of the Marine Corps (CMC).....	59
F.	INITIATIVES	59
G.	TIMELINE	60
VII.	CONCLUSION	63
A.	OVERVIEW	63
B.	BUDGET OFFICES	64
C.	DEPARTMENT OF THE NAVY.....	64
D.	MARINE CORPS	64
	ISSUES MARKED FOR RESOLUTION POM 02	65
	POST PROGRAM ADJUSTMENTS	65
E.	RECOMMENDATIONS FOR FURTHER STUDY	65
	LIST OF REFERENCES.....	67
	INITIAL DISTRIBUTION LIST	69

LIST OF FIGURES

Figure 1.	Department of Defense Planning Phase.....	8
Figure 2.	Department of Defense Programming Phase.....	10
Figure 3.	Department of Defense Budget Phase	12
Figure 4.	Department of the Air Force Budget Office Structure.....	15
Figure 5.	Department of the Army Budget Office Structure.....	17
Figure 6.	Department of the Navy Budget Office Structure	20
Figure 7.	Department of the Air Force Budget Process Phase One	27
Figure 8.	Department of the Air Force Budget Process Phase Two.....	28
Figure 9.	Department of the Air Force Budget Process Phase Three.....	29
Figure 10.	Department of the Army Budget Process Phase One	32
Figure 11.	Department of the Army Budget Process Phase Two.....	33
Figure 12.	Department of the Navy Budget Process Phase One	36
Figure 13.	Department of the Navy Budget Process Phase Two	37
Figure 14.	Department of Defense Fiscal Guidance FY 2001	39
Figure 15.	Department of the Navy Appropriated Funds.....	40
Figure 16.	Department of the Navy Percents Appropriated.....	41
Figure 17.	Department of the Navy MilPers Structure	42
Figure 18.	Department of the Navy O&M Structure.....	43
Figure 19.	Department of the Navy Procurement Structure.....	45
Figure 20.	Department of the Navy Funding for FY 2000.....	50
Figure 21.	Program Evaluation Groups Ranking Process Example.....	55
Figure 22.	POM Working Group Merged List Process Example	56
Figure 23.	POM Working Group Order to Buy Set-Up Example.....	57
Figure 24.	POM Working Group Order to Buy Process Example.....	58
Figure 25.	Marine Corps Tentative-POM Process	59
Figure 26.	Marine Corps Budget Process Timeline	61

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LIST OF TABLES

Table 1. MilPers Appropriation and Budget Activity.....	43
Table 2. O&M Appropriation and Budget Activity.....	44
Table 3. Department of the Navy Procurement Appropriation and Budget Activity	46
Table 4. RDT&E Appropriation and Budget Activity.....	48

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I. INTRODUCTION

A. PURPOSE

The general purpose of this research is to describe the budget offices of the Departments of the Air Force, Army, and Navy. The specific goal of this study is to provide a prospective of the budget decision-making process for students with insight into the responsibilities and composition of each office. The Department of the Navy (DON) budget office will be used as a model for their study. In addition this thesis will provide an in-depth look at the Marine Corps Program Objective Memorandum (POM) and Budget Estimate Submission (BES) building process.

B. BACKGROUND

Prior to 1949, the Secretary of Defense (SECDEF) had little authority and control over the military services. In an attempt to amend the ineptness of the office, Congress amended the National Security Act (NSA) of 1947. This act helped reestablish the SECDEF's role over the three military departments.

The NSA of 1949 re-designated the National Military Establishment as the Department of Defense (DOD). It also provided the SECDEF with a comptroller who would aid in the financial operations of the entire department. This new addition to the Office of the Secretary of Defense would come to be known as the Under Secretary of Defense (Comptroller) (USD(C)) and would provide the SECDEF the much needed control over the budget development of each service.

In order to assist the USD(C), Congress mandated that each service create a comptroller position. It was intended that these comptrollers would be responsible directly to the service secretaries and would act in accordance with directions set forth from the USD(C).

In the Departments of the Air Force, Army, and Navy the requirement of the statute was met by having the Assistant Secretary of Financial Management additionally assume the duties of Comptroller. This collaboration of office would come to be known as the Assistant Secretary for Financial Management and Comptroller.

The Assistant Secretary for Financial Management and Comptroller of each military department was responsible for aiding in the development of their departments POM and BES. In order to meet these responsibilities the Assistant Secretary for Financial Management and Comptroller enlists the aid of organizations referred to as budget offices. It is within the offices that the each service develops their budget and the budget of the DOD.

C. METHODOLOGY

This research included a literature search of books, magazine articles, journals, World Wide Web, DOD references and other library information resources. It used phone inquiries, electronic mail, and personal interviews with individuals who recently served or have an in-depth knowledge of the budget offices. In addition this thesis was developed from the guidance and instruction of individuals articulate in the budget decision-making process.

D. SCOPE

The scope includes four phases. The first is a breakdown of the Planning, Programming, and Budgeting System (PPBS) of the DOD. This is also followed by a description of the budget offices of the Departments of the Air Force, Army, and Navy. In addition the budgeting processes of each of these departments is included. It is hoped that this will help the reader understand the PPBS used by the DOD and the offices and processes that aid in its execution. Next a sample analysis is taken from the DON appropriations. Such accounts as Operations and Maintenance, Procurement, Military Personnel and Research, Development, Testing, and Evaluation are reviewed. Finally the Marine Corps budget process is examined in order to show its role in the DON POM and BES development. All of this was based on findings from events prior to August 2001

E. THESIS OUTLINE

The thesis consists of an overview of the DOD PPBS and how it is used to develop the POM and BES. It is followed by a description of the Departments of the Air Force, Army, and Navy budget offices and the budget processes they use to develop the POMs and BESs that in turn, will be used in the development of the DOD's POM and BES. This thesis then looks at the issues involved in the development of the military

departments' POMs and BESs by looking at the appropriation funding processes of the DON and the Marine Corps. The conclusion of this thesis includes a summary of the important facts from each chapter and recommendations for further study.

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II. PLANNING, PROGRAMMING, AND BUDGETING SYSTEM

A. OVERVIEW

The Planning, Programming, and Budgeting System (PPBS) is a process used by the Department of Defense (DOD) to aid in the development of a budget. It is a cyclical process containing three distinct but inter-related phases. It is based on the strategic objectives of the United States and utilizes a successful integration of "bottom-up" requirements with "top-down" guidance that are all within fiscal constraints. In addition it is entwined with foreign policy, which can result in increases or decreases in workload, by choosing to participate or not to participate in military activities or to respond or not to respond to others or to encourage or to discourage military adventurism on the part of others. [REF 1]

B. HISTORY

The PPBS was first implemented in 1962 by then Secretary of Defense (SECDEF) Robert S. McNamara. Prior to its introduction the services worked independently of each other in creating their budgets with little outside guidance. For the most part, the services stayed within the confines of their stated roles and missions and little if any coordination was done between the services to address issues such as redundancy in weapons acquisitions. [REF 2]

The introduction of PPBS changed this process by creating a more inclusive and efficient approach for the development of a budget. By increasing the SECDEF's role and centralizing the DOD components, McNamara was able to combat the numerous problems that occurred in the years prior. As a result service independence was eliminated and a more effective, process was created.

C. DOD PPBS

The PPBS is the primary process from which the DOD Budget Estimate Submission (BES) is developed. Its purpose is to provide the DOD with a continuous and systematic approach that meets the strategic objectives of the United States. Its ultimate goal however is to provide the warfighting commanders the best mix of forces, equipment and support attainable within fiscal constraints. [REF 1]

The focus of the DOD PPBS is on establishing long range planning objectives, analyzing alternative programs to meet those objectives and translating programs into budget and legislative proposals and long-term projections. It provides the SECDEF the control needed to ensure that the services are developing budget estimates in accordance with the national security directives. The system is divided into three interrelated phases: Planning, Programming and Budgeting.

D. PLANNING PHASE

How much Defense is enough? The planning phase of the DOD PPBS is designed to integrate assessments of potential military threats facing the country, and the projected financial resources into an overall statement of policy. [REF 1] It commences with the National Security Council's issuance of the National Security Strategy (NSS) and concludes with the SECDEF's approval of the Defense Planning Guidance (DPG). The DPG is the principal planning document of the planning phase and is developed from the three major products produced by the Joint Strategic Planning System (JSPS). The JSPS, which is headed by the Chairman of the Joint Chiefs of Staff (CJCS), produces the National Military Strategy Document (NMSD), Joint Planning Document (JPD) and the Chairman's Program Recommendation (CPR). These three products assist the SECDEF in developing a DPG that coincides with the guidance of the NSS while taking into account the needs of each service. The Office of the Under Secretary of Defense for Policy (USD (P)) is the lead agency of this phase. The planning phase lasts from October to February and is depicted in Figure 1.

E. PRODUCT DESCRIPTIONS

1. NSS

The National Security Council develops the NSS in compliance with the President's national security objectives. It takes the input from numerous federal agencies and departments to ascertain the threat to the United States, and then outlines the national defense strategy. [REF 1] The NSS is the basis from which the NMSD is developed.

2. NMSD

The NMSD is developed from the collaborated efforts of the Joint Chiefs of Staff (JCS), warfighting commanders and services in response to the direction set forth in the NSS. It is a fiscally unconstrained document that defines national military objectives, establishes the strategy to accomplish these objectives, and addresses the military capabilities required to execute the strategy. [REF 1] Its purpose is to assist the SECDEF in preparing the DPG. The CJCS supervises the development of the NMSD and approves its completion.

3. JSPD

The JSPD is created by the Joint Staff. It is a standalone document published in a series of chapters covering specific functional areas. [REF 3] It provides early planning and broad programmatic advice to the SECDEF to aid in the development of the DPG. It is a product of the JSPS.

4. CPR

The CPR is prepared by the CJCS. It considers the assessments presented in the JPD, and provides more specific recommendations to the SECDEF on programs of far greater importance to the CJCS. Using the Joint Warfighting Capability Assessment (JWCA) process, the Joint Requirements Oversight Council compiles much of the substance of these recommendations in formulating the CPR. [REF 4] Once finalized however it is considered to be the CJCS's personal recommendation. The CPR's focus is on the "joint" capabilities of the DOD components and is instrumental in the formation of the DPG. It is a product of the JSPS.

5. DPG

The DPG is developed from the recommendations of the JSPS and the guidance provided by the NSS. The DPG outlines force and fiscal guidance to the DOD components for their development of their respective Program Objective Memorandum (POM). [REF 1] The conclusion of the first phase of PPBS is marked with the distribution of the SECDEF approved DPG to each of the DOD components.

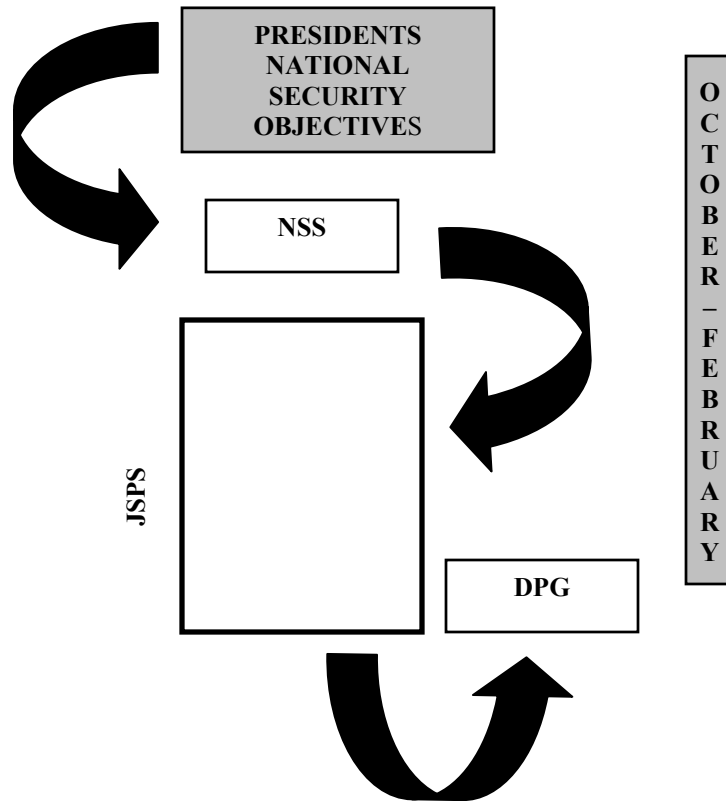


Figure 1. Department of Defense Planning Phase

F. PROGRAMMING PHASE

How much Defense can we afford? The programming phase of the PPBS is the period in which each service produces a POM. The objective of this phase is to develop a financial plan that is consistent with the guidance set forth in the DPG. This phase, unlike its predecessor, is more oriented to the services allowing them to prepare the POM independently of the Office of the Secretary of Defense (OSD) and JCS. Once completed however the services submit their final drafts to be assessed by CJCS and the OSD for compliance with the DPG.

OSD's review of the Departments of the Air Force, Army, and Navy POMs begins with the identification of major and minor POM issues. Assessment teams will then be assigned to each issue from the list in an attempt to produce a product more analogous to the DPG. Issues that fail to be resolved by the teams will be submitted to the Program Review Group (PRG) for a decision. If significant or contentious enough,

the PRG will present the issues, in turn, to the Defense Resource Board (DRB). [REF 5] It is, however, preferred that all issues concerning the POMs be handled at the lowest level. Once the issues identified by the OSD are settled the results are forwarded to the SECDEF. In addition to this submission the CJCS will submit his own personal recommendations concerning each POM by means of the Chairman's Program Assessment (CPA).

Once the SECDEF approves the POMs, he will then submit the Program Decision Memorandum (PDM). The SECDEF's publication of the PDM marks the end of the Programming phase. The Programming phase concludes with the approval and signing of the PDM by the SECDEF. The Director of Planning, Analysis, and Evaluation is the lead agent of this phase. The programming phase last from March to August and is depicted in Figure 2.

G. PRODUCT DESCRIPTION

1. POM

The POM is each service's plan on how it will allocate its resources (forces, manpower and dollars). It is a fiscally constrained document that is developed from the guidance presented in the DPG. The POM covers a six-year period and indicates the desired direction a service wants to head. Each DOD component's POM is reviewed by the CJCS and the OSD to assess their compliance with the DPG. Although OSD and the CJCS are very specific about the format of the data they demand from the services in their POMs, they have no rules dictating how each service should develop these data. [REF 7] The first two years of the POM are specifically used in making the DOD BES. The POM is one of the two most important documents produced in the PPBS.

2. CPA

The CPA considers the advice, analysis and recommendations from the CPR (and by extension the JWCA) and documents the Chairman's personal assessment of the adequacy, balance and conformance to the DPG of the service POMs. [REF 6] Similar to the CPR, the CPA is a personal recommendation from the CJCS directly to the SECDEF.

It is the CJCS evaluation of each POMs conformance to the DPG. It aids the SECDEF in the development of the PDM.

3. PDM

The PDM is the final product of the programming phase. It is composed of the input received from the resolved issues lists and the CPA. The PDM is issued by the Deputy SECDEF and represents the SECDEF's approval of each DOD component's POM.

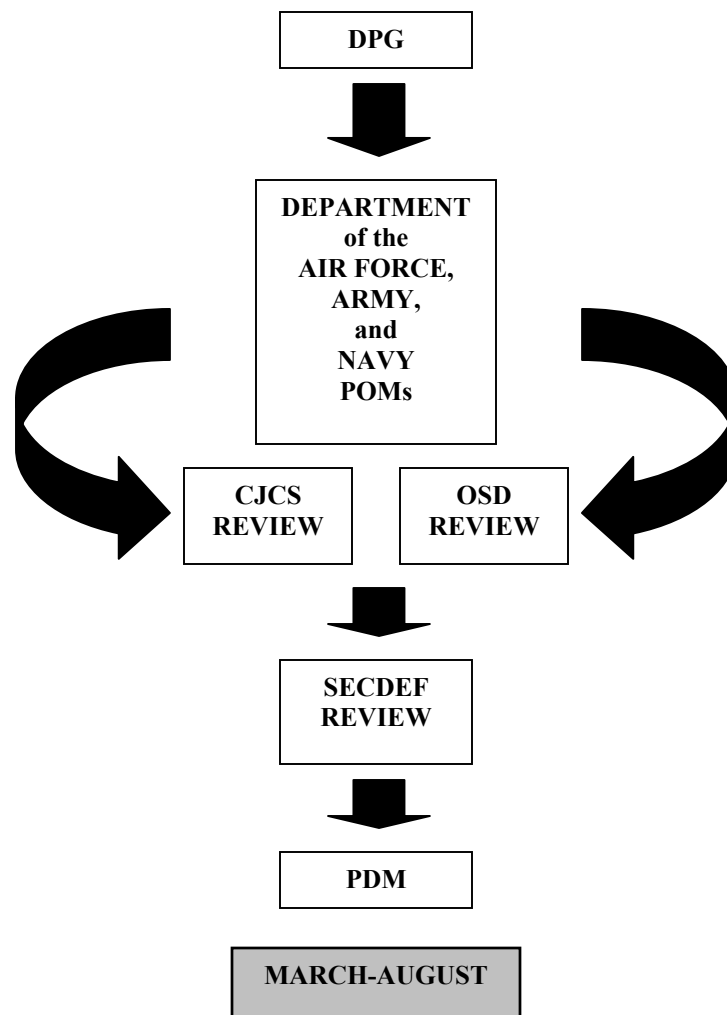


Figure 2. Department of Defense Programming Phase

H. BUDGETING PHASE

Are we executing efficiently? In the budgeting phase, each DOD component will develop a detailed BES based on its PDM approved POM. Budgeting is the last phase of PPBS and simply takes the approved programs in each POM, and converts the gross numbers into more precise budget exhibits. [REF 1] The goal of the budgeting phase is to ensure that the POM submitted by each DOD component and adjusted in accordance with the PDM is fiscally efficient. During this phase approved programs are converted into appropriation format in preparation for their submission to Congress. The lead agency during this phase is the Under Secretary of Defense, Comptroller.

The OSD in conjunction with the office of Management and Budget (OMB) conducts a review of the BESs and submits any recommended adjustments or marks to the Departments of the Air Force, Army, and Navy in the form of Program Budget Decisions (PBD). It is during this first submission of the PBDs that DOD components have a chance to appeal tentative budget decisions in a procedure otherwise known as a reclama. Most disagreements are handled at the lower levels, however, those of a more critical nature are designated as Major Budget Issues and are handled by the SECDEF. In the end, draft PBDs are reviewed by each service for possible revisions. If none need to be made, their budget estimates are resubmitted for inclusion into the Presidents Budget (PRESBUD). This submission marks the end of both the budgeting phase and the PPBS at the Federal level. The budgeting phase lasts from June to December and is depicted in Figure 3.

I. PRODUCT DESCRIPTION

1. BES

The BES is each services budget submission. Its baseline fiscal request is derived from the PDM amended POM. Once approved by a PBD each service submits its BES to Congress for submission into the PRESBUD. The BES is one of the two most important document produced in the PPBS (the other is the POM).

2. PBD

A PBD is the SECDEF's position on each components BES, adjusting and approving each BES. [REF 1] An unsigned version of a PBD is first sent to the DOD

components for their review and possible reclama. The final submission of signed PBDs marks the end of the budgeting phase and clears each service to submit its BES to the Office of Management and Budget for inclusion in the PRESBUD.

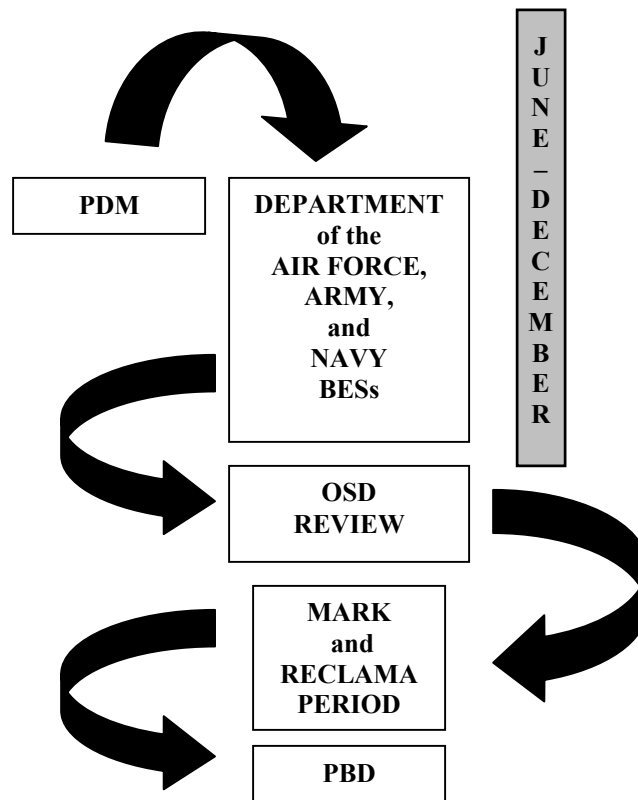


Figure 3. Department of Defense Budget Phase

By outlining the process used by the DOD, one can see the importance of the POM and the BES. It is however important to emphasize the fact that the majority of the input used in the development of these two items comes from the Departments of the Air Force, Army, and Navy budget offices. In the following chapter the structure and functions of these budget offices will be delineated.

III. BUDGET OFFICES

A. OVERVIEW

As stated previously, the Departments of the Air Force, Army, and Navy all develop Program Objective Memorandums (POMs) and Budget Estimate Submissions (BES). Although developed individually these POMs and BESs are subsets of a more encompassing submission known as the Department of Defense (DOD) Budget. It is therefore essential that these documents meet the objectives identified in the strategic planning documents of each department as well as those in the DOD's.

In an attempt to accomplish the task of satisfying the demands of budget formulation the DOD and each of its military departments employ the assistance of a central budget office. It is the job of these offices to review the BES for conformance with the directives issued at the start of the budget process and subsequent changes to those directives. [REF 9] In short each office must produce a BES that includes the guidance set forth by the Secretary of Defense (SECDEF) with the requests of the organizations within their departments.

As an organization, it is said that generically a budget office may be viewed to serve at least five functions. These include:

- Oversight of preparation
- Oversight of budget execution
- Legislative clearance
- Management review
- Information gathering [REF 9]

The Office of Management and Budget (OMB), which assists the President in the development and implementation of the President's Budget (PRESBUD) is an example of an organization that applies these functions to their activities. The responsibilities of the OMB are as follows:

- Prepare the annual budget submission

- Implement the budget after it is enacted into law
- Promote best practice management across the Federal government
- Ensure efficient and quality program performance
- Conduct in-depth regulatory review of significant rules proposed by federal agencies
- Align agencies' actions, policies, statements, and proposals to reflect the President's policy

As one can see the responsibilities of the OMB and the generic functions of a budget office are considerably equivalent.

The organizations within the government often model their budget offices on the OMB making it safe to assume that the Departments of the Air Force, Army, and Navy are also structured to meet the generic functions stated above. By looking at the structure and responsibilities of the budget offices of the Departments of the Army, Air Force, and Navy this assumption will be confirmed.

B. DEPARTMENT OF THE AIR FORCE BUDGET OFFICE

The Air Force Budget Office is established in order to aid the Assistant Secretary of the Air Force (Financial Management and Comptroller) with the formulation of the Air Force BES. Its goal is to obtain funding to support the Air Force mission by translating program requirements into approved budget estimates. The Air Force Budget Office is composed of five directorates:

- Directorate of Budget Investment (FMBI)
- Directorate of Budget and Appropriation Liaison (FMBL)
- Directorate of Budget Management and Execution (FMBM)
- Directorate of Budget Operations (FMBO)
- Directorate of Budget Programs (FMBP)

Figure 4 depicts how these directorates are organized.

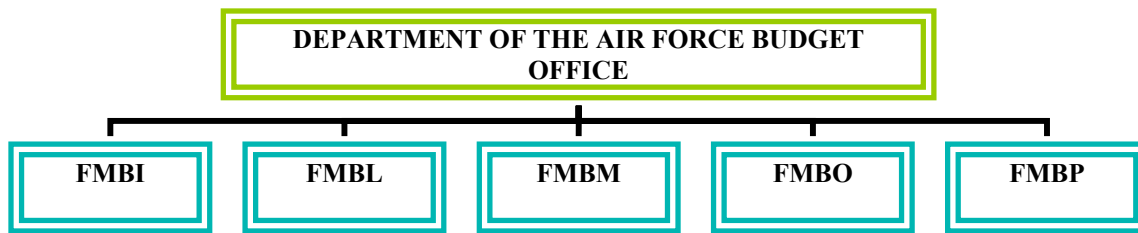


Figure 4. Department of the Air Force Budget Office Structure

The Air Force Budget Office depends on these directorates to help in the development and execution of an all-encompassing budget estimate. It is therefore essential that the directorates meet their objectives. The following is a description of each directorate's objective, as surmised in their mission statements and a list of the divisions that assist them [REF 10].

1. FMBI

The FMBI directorate develops the budget estimate and tracks financial execution of Aircraft, Missiles, Munitions, and Other Procurement. It also aids in the formulation and execution of the Research, Development, Test and Evaluation (RDT&E), Military Construction (MilCon), Military Family Housing, Base Realignment and Closure and Security Assistance Activities accounts. The directorate is organized into five divisions:

- MilCon
- Program Support
- Security Assistance
- Missiles, Munitions, Space & Other Procurement
- Aircraft and Technology

2. FMBL

The FMBL is the Air Force's liaison to the Congressional Budget and Appropriations Committees and the Congressional Budget Office. Its job is to develop and implement strategies to ensure Congress is aware of pertinent Air Force budget positions and issues. In addition, they are responsible for monitoring Congressional activity and keeping Air Force officials informed of actions taken on the Air Force

Budget. Furthermore they act as the Air Force's point of contact for House Appropriations Committee Surveys and Investigations.

3. FMBM

The FMBM directorate establishes financial policy and procedures. It provides oversight of Air Force Working Capital Fund Activities and manages the Air Force's financial data systems, prior year financial adjustments and processes for appropriation distribution to subordinate activities. The FMBM reviews and validates all Air Force requests of the Department of the Treasury, and the Schedule of Apportionment and Reapportionment to the Office of Secretary of Defense (OSD).

4. FMBO

The FMBO directorate is the Air Force focal point for all matters pertaining to planning, formulating, integrating, defending and executing of the Air Force's Operations and Maintenance and Military Personnel Appropriation budgets that support approved programs and mission priorities.

5. FMBP

The FMBP directorate integrates the Air Force Budget within the Planning, Programming, Budgeting System. It also coordinates the Air Force actions for the BES and Budget Review Process leading to the President's Budget Submission. The FMBP manages the Air Force's database for the Force and Financial Plan and all fiscal control adjustments. In addition, it acts as the principal advisor to the Assistant Secretary of the Air Force for Financial Management and Comptroller and the Deputy Assistant Secretary for Budget on Total Force Comptroller and Budget issues between the Air Force, Air Force Reserves and Air National Guard.

C. DEPARTMENT OF THE ARMY BUDGET OFFICE

The Army Budget Office is the lead agency in the Department of the Army responsible for the development and defense of the Army Budget. It directly assists the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA (FM&C)) by providing a link between the Secretary of the Army and the organizations that make up the Department of the Army during the budget process. The Army Budget Office is composed of four directorates:

- Management and Control Directorate (BUC)
- Operations and Support Directorate (BUO)
- Investment (BUI)
- Business Resources (BUR)

In addition to the above, the Army Budget Office enlists the aid of a Congressional Budget Liaison (CBL) to assist in the handling of budget issues that occur on the Congressional level. Figure 5 depicts how these directorates are structured.

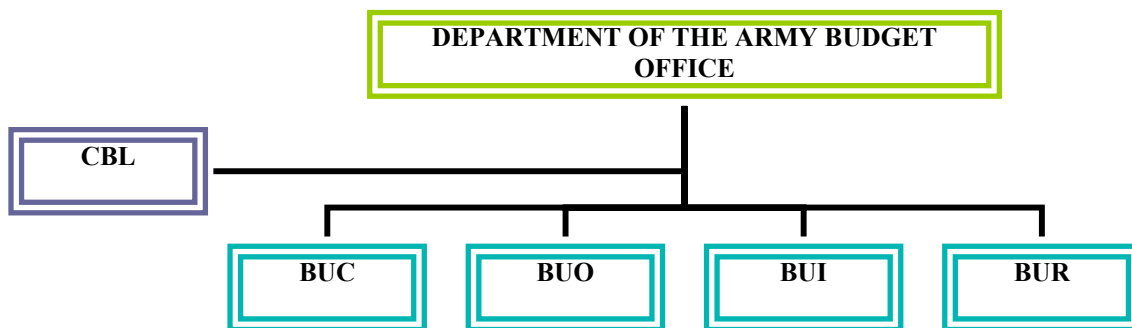


Figure 5. Department of the Army Budget Office Structure

Each of the directorates that make up the Army Budget Office has an essential and explicit task. It is implicit that each directorate must meet its responsibilities in order to ensure that the budget estimate presented by the Department of the Army to the SECDEF speaks for every organization in the department from the lowest to the highest. The following is a brief synopsis of the responsibilities of each directorate taken from the ASA (FM&C)'s Organization and Functions Manual to include the divisions in which the responsibilities are divided. [REF 11]

1. BUC

The BUC directorate is responsible for the Army's budget formulation and justification processes, issuing Army-wide budget formulation and execution guidance. In addition the BUC analyzes the impacts of changes to the Army's budget during the formulation, justification and execution phases of the Department of the Army budget process. The BUC directorate is organized into three divisions:

- Budget Formulation
- Budget Execution, Policy, and Funds Control
- Budget Integration and Evaluation

2. BUO

The BUO directorate is responsible for formulating, presenting, defending, and managing the execution of the Operation and Maintenance, Army and Military Personnel, Army appropriations. The directorate coordinates budgeting of these appropriations from program development completion through budget execution completion. Also, this directorate participates in the program development process by membership on functional panels to provide interface with programs previously given resources in the budget cycle or being executed by the field. In addition, the BUO serves as the focal point for the Major Army Commands to interface with Head Quarters Department of the Army on operating budget issues. The BUO directorate is comprised of three divisions:

- Current Operations Division
- Military Personnel Division
- Operating Forces Division

3. BUI

The BUI directorate is responsible for financial management operations, budgeting, and execution for the Army's Procurement appropriations; RDT&E, Army appropriation; MilCon, Family Housing, and Chemical Agents and Munitions Destruction, Army appropriations; and for the Defense Department's Homeowners Assistance Program. The Director of the BUI serves as an ASA(FM&C) representative to the Army Systems Acquisition Review Committee. This directorate is the primary office for interfacing with Office of the Under Secretary of Defense (Comptroller) on investment MilCon and multi-year appropriation matters. The Directorate is organized into four divisions:

- Weapons Systems
- Acquisition and Integration

- Facilities
- Other Procurement, Army

4. BUR

The BUR directorate is responsible for formulating, presenting, and defending the Army Working Capital Fund (AWCF), Foreign Military Sales (FMS), and Information Technology Systems Budget (ITSB) to OSD, OMB, and Congress. This directorate develops and issues Army policy for business resources and manages interface between the Army, Military Components, DOD, and other non-DOD government agencies. The BUR advises the Director of the Army Budget Office and ASA (FM&C) on issues relating to all other Working Capital Funds and serves as the focal point for all aspects of the Planning, Programming, Budget, and Execution System for the Army's AWCF, FMS, and ITSB. The BUR directorate is comprised of four divisions:

- Supply Management Division
- Depot Maintenance/Ordnance/Information Services Division
- Business Integration Division
- Special Business Activities Division

D. DEPARTMENT OF THE NAVY BUDGET OFFICE

The Navy Budget Office (FMB) is the Department of the Navy's (DON's) central budget office. It is responsible for the merging of both the Navy and Marine Corps budgets. Its goal is to fuse the strategic demands and requirements of both services with the strategic plans and guidance of the SECDEF in order to produce a single BES.

The FMB is a dual hatted organization that performs duties directly for the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN (FM&C)) and the Chief of Naval Operations as the Fiscal Management Division (N82). Although the FMB and N82 offices are one in the same the responsibilities of both offices differ. This thesis will focus only on the FMB.

The FMB organization consists of six divisions:

- Appropriations Matters Office (FMBE)
- Operations Division (FMB1)
- Investment and Development Division (FMB2)
- Program/Budget Coordination Division (FMB3)
- Business and Civilian Resources Division (FMB4)
- Budget and Procedures Division (FMB5).

Figure 6 depicts how these divisions are organized.

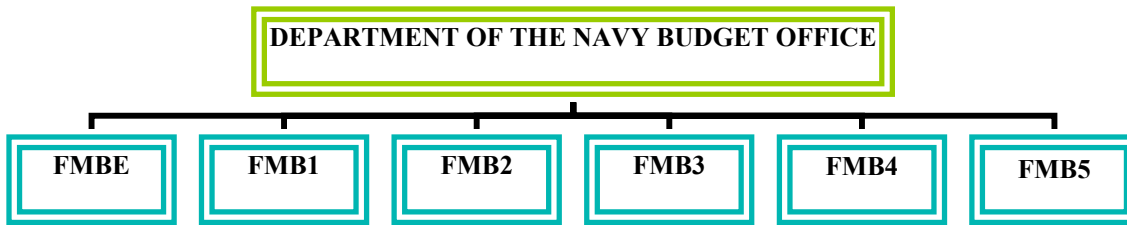


Figure 6. Department of the Navy Budget Office Structure

Each division plays an essential and specific part in the development and implementation of the DON budget. The following is a brief synopsis of the responsibilities of each division as stated in the Budget Guidance Manual [REF 12].

1. **FMBE**

The FMBE is responsible for maintaining liaison with the Congressional Appropriations Committees, the Office of Legislative Affairs, and the Congressional Liaison Offices of the SECDEF, Secretary of the Army and Secretary of the Air Force for functions related to congressional hearings and congressional staff matters for all oversight committees. The FMBE coordinates all matters related to DON participation in hearings before the House and Senate Appropriations Committees and keeps FMB and all its fellow divisions advised on the current status of congressional action and appropriation requests. It provides the schedule of committee hearings, arranges for DON witnesses, coordinates the review of transcripts of hearings, coordinates responses to

committee questions, arranges briefings for members of the committees, their staffs, and the members of the professional staffs, and provides any other coordination activities associated with these committees.

2. FMB1

The FMB1 is responsible for reviewing, recommending, and revising estimates for the Military Personnel (Active and Reserve) and Operations and Maintenance (Active and Reserve) appropriations, and other funds of the Navy and Marine Corps. The office is also responsible for assisting in the justification of estimates before OSD/OMB and Congress, the continual review of program execution, and the recommending of adjustments to allocations, when required. For the OSD/OMB review, the FMB1 analysts act as the primary DON contact with the OSD/OMB staff analysts. They are responsible for publishing schedules of hearings, attending hearings, and coordinating and clearing all responses to requests for additional information. They also prepare or review reclamation to Program Budget Decisions (PBD) and issues for the Major Budget Issues (MBI) meeting. Finally, they are responsible for ensuring the accuracy of the OSD decision recording system and for updating the DON tracking system. For the Congressional review, the FMB1 analysts are responsible for preparing or clearing budget material provided to Congress in support of Military Personnel and Operation and Maintenance appropriations. This may include budget justification material, statements, transcripts of hearings, answers to questions, backup or point papers, and appeals to authorization and appropriation reports. Representatives from FMB1 may attend Congressional hearings as backup or supporting witnesses.

3. FMB2

The FMB2 is responsible for reviewing, recommending, and revising estimates for the investment and development appropriations, including procurement, research and development, construction, family housing, and base closure and realignment. This office is also responsible for assisting in the justification of estimates before OSD/OMB and Congress, the continual review of program execution, the recommending of adjustments to allocations when needed, and the reporting of selected acquisition costs and data to the Congress. For the OSD/OMB review, the FMB2 analysts act as the primary DON contact with the OSD/OMB staff analysts. They are responsible for publishing schedules

of hearings, attending hearings, and coordinating and clearing all responses to requests for additional information. They also prepare or review reclamation to PBDs and issues for the MBI meeting. Finally, they are responsible for ensuring the accuracy of the OSD decision recording system and for updating the DON tracking system. For the Congressional review, the FMB2 analysts are responsible for preparing or clearing budget material provided to Congress in support of Investment and Development appropriations. This may include budget justification material, statements, transcripts of hearings, answers to questions, backup or point papers, and appeals to authorization and appropriation reports. Representatives from FMB2 may attend hearings as backup or supporting witnesses.

4. FMB3

The FMB3 is responsible for the preparation of DON budget guidance and procedures; control and coordination of budget submissions; coordination of reclamation to SECDEF PBDs; preparation and/or clearance of all program and financing schedules included in the budget; coordination of DON's participation in appeals to Congressional action; development and operation of Automated Data Processing Systems in support of the budget formulation process at the DON headquarters level; administration of financial control systems and procedures for the apportionment, allocation of funds and the reprogramming process; and, preparation of fund authorization documents for appropriations under its charge. This office also reviews and makes recommendations on Departmental budget issues and appraises the effectiveness of budget systems. Additionally, FMB3 prepares reports for the DON on the status of the OSD/OMB review, coordinates the DON participation in the MBI meetings, monitors the OSD automated decision recording system, and operates the DON system for recording all decisions.

FMB3 also coordinates the preparation of DON inputs into the Budget of the U.S. Government, the preparation of financial and other summary budget documents, and the preparation of the Budget Officer's statement. This office is responsible for preparing budget material provided to Congress in support of Advisory and Assistance Services. The FMB3 prepares bill digests and Congressional Action Tracking System tables pertaining to the DON budget at each stage of authorization and appropriation committee action on the PRESBUD. This office is also responsible for reviewing any issues that

may arise during the Congressional review concerning appropriation responsibility and all proposed legislative changes, which affect the budget.

5. FMB4

The FMB4 is responsible for reviewing, recommending, and revising estimates for the Navy Working Capital Fund (NWCF) and civilian personnel for inclusion in the budget and the justification of these estimates to OSD/OMB and the Congress. This office also reviews and validates funding estimates in working capital fund activity budgets to ensure proper balance between NWCF “providers” and DON appropriated fund “customers.” For the OSD/OMB review, the FMB4 analysts act as the primary DON contact with the OSD/OMB staff analysts. They are responsible for publishing schedules of hearings, attending hearings, and coordinating and clearing all responses to requests for additional information. They also prepare or review reclusas to PBDs and issues for the MBI meeting. Finally, they are responsible for ensuring the accuracy of the OSD decision recording system. For the Congressional review, the FMB4 analysts are responsible for preparing or clearing budget material provided to Congress in support of NWCF activities and Civilian Personnel accounts. This may include budget justification material, statements, transcripts of hearings, answers to questions, backup or point papers, and appeals to authorization and appropriation reports. Representatives from FMB4 may attend hearings as backup or supporting witnesses.

6. FMB5

FMB5 is responsible for the development, coordination, and issuance of DON budget and funding policy and procedural guidance for all DON appropriations, funds, and organizations. This includes the dissemination of DON policy guidance required in the development of the budget; review and appraisal of budget policy and procedures and their implementation within the DON; development of improvements in organizational responsibilities and interfaces related to budgeting and funding; continuous appraisal of adequacy and effectiveness of financial management systems to ensure conformance with budget policy; resolution or adjudication of audit and inspection findings involving budget policy and procedures matters; analysis of implications of audit findings for financial management policy of the department; review of budgetary policy impact of

legislative proposals; identification and clarification of Congressional direction concerning DON budget policy and procedures; and development of functional standards for and review of comptroller organizations.

E. CONCLUSION

Although the responsibilities and structure of the budget offices of the Departments of the Air Force, Army, and Navy differ, their objective is the same. It is the job of these offices to aid the SECDEF in the development of a budget that is reviewable by Congress and the President. In order to do this each of these budget offices develops its own BES. In the following chapter we will examine the processes used by these prospective budget offices in the development of their BES.

IV. BUDGETING PROCESS

A. OVERVIEW

Although the goals of each of the military department's budget producing processes are the same, the methods they use are slightly different. The development of the Budget Estimate Submissions (BES) of the Departments of the Air Force, Army and Navy are a product of various derivations of the Planning, Programming, and Budget System (PPBS) used by the Department of Defense (DOD). Each of the budget offices is responsible for the budget phase of its service specific systems.

B. DEPARTMENT OF THE AIR FORCE BUDGET PROCESS

The Air Force Budget Office is the lead agent in the budgeting phase of the PPBS within their department. Their objective is to formulate, execute, and control the allocation and use of resources based on requirements identified during the planning and programming phases of PPBS. In the Department of the Air Force the budget process consists of three phases.

- Investment Budget and Operational Budget Review
- Budget Estimate Submission
- Budget Review

The Investment Budget Review (IBR) of the first phase begins with the review and evaluation of the execution and performance of programs funded with investment dollars within the Major Army Commands and System Centers. It is during this phase that analysts from the Air Force Budget Office determine the expected obligation and execution rates of each program. Their goal is to identify and adjust obligation and execution problems. If the Air Force does not identify and adjust these problems, the Office of the Secretary of Defense (OSD) will usually do so in a Budget Review. However, if the OSD adjusts a program, the savings do not automatically belong to the Air Force. [REF 13]

Based on the findings of the IBR the Air Force Budget Office analysts propose specific adjustments to specific invest accounts of selected programs. These proposals

are then forwarded to the Investment Budget Review Committee (IBRC), which is chaired by the Director of the Directorate of Budget Investments (FMBI). The IBRC will review each proposed adjustment in order to determine which will be sent to the Air Force Board (AFB), which is chaired by the Director of the Air Force Budget Office. The AFB will then review the IBR recommendations and decide which to keep, adjust, or delete. [REF 13] These results are then submitted to the Air Force Chief of Staff (CSAF) and the Secretary of the Air Force (SECAF) for final approval.

The second aspect of the first phase of the Air Force Budget process is referred to as the Operational Budget Review (OBR). It progresses similarly to the IBR with one exception, its focus is on the Operations and Maintenance Accounts. The Operational Budget Review Group (OBRG), chaired by the Director of the Directorate of Budget Operations (FMB-O), reviews the proposals and briefs them to the AFB. [REF 13] As in the IBR, the AFB evaluates the proposals and submits their findings to the CSAF and the SECAF for consensus.

The main objective of the Investment and Operational budget reviews is to prevent the OSD from adjusting the Air Force Total Obligational Authority. By correcting funding issues within the department, the Air Force is able to make changes that will result in net savings. The recommendations developed during these reviews, once approved by the CSAF and SECAF will then be used in the development of the Air Force Budget Estimate Submission (BES). Figure 7 depicts phase one of the Air Force budget process.

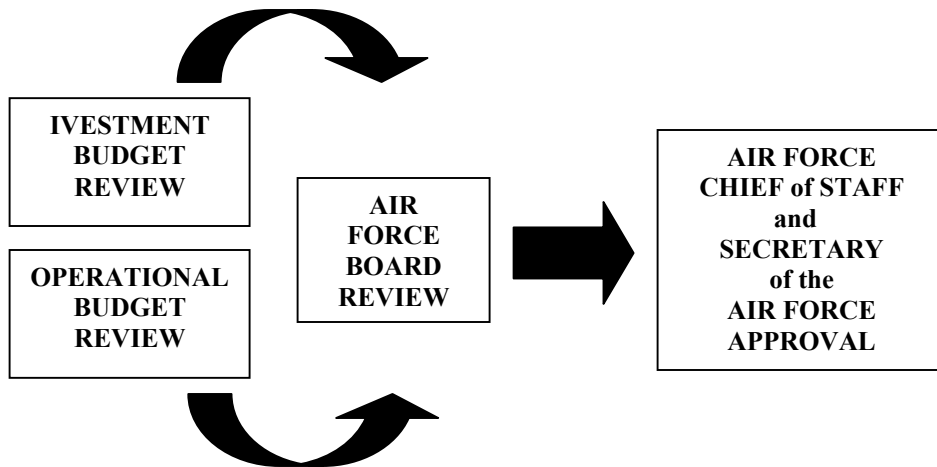


Figure 7. Department of the Air Force Budget Process Phase One

The beginning of the Air Force BES development marks the commencement of the second phase in Air Force budgeting. It is during this phase that, the approved recommendations of the IBR and OBR are merged with the guidance provided in the Program Decision Memorandum (PDM) by the Air Force Budget Office in an attempt to readjust the Program Objective Memorandum (POM). The BES is developed from the newly adjusted POM.

The BES is like a bill and it is the job of the budgeters and programmers within the Department of the Air Force to find offsets to lessen its cost. Once the BES is determined, it is briefed by the AFB to the Air Force Council (AFC), CSAF, and SECAF. Once approved the BES is submitted to the OSD thus concluding the second phase of Air Force budgeting process. Figure 8 depicts the second phase of the Air Force budget process.

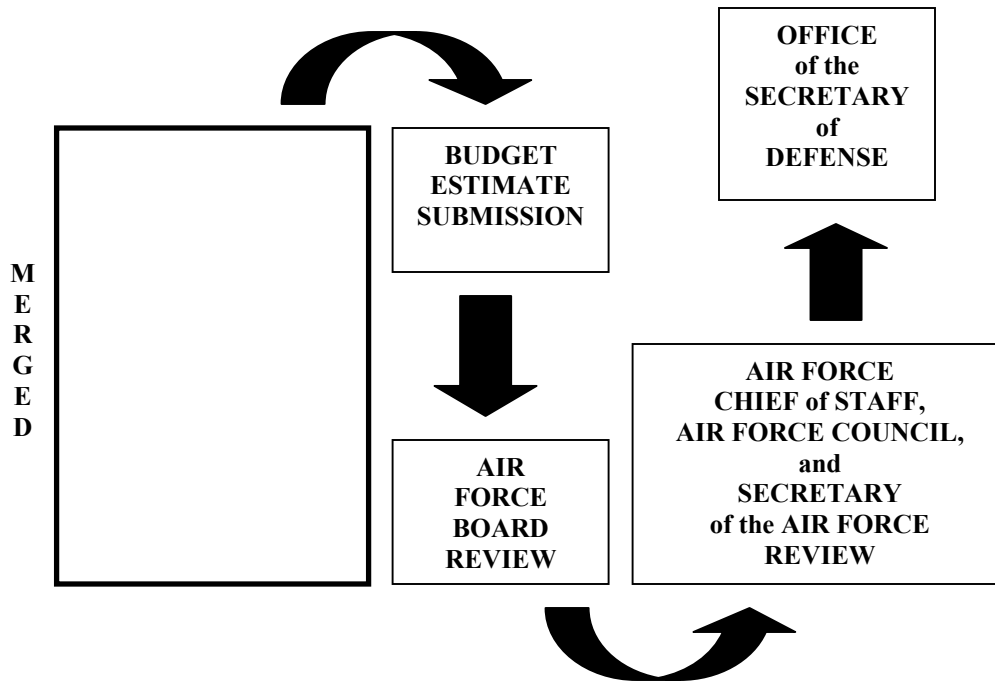


Figure 8. Department of the Air Force Budget Process Phase Two

Once the OSD receives the Air Force BES the third and final phase of the Air Force budgeting process begins. During this phase, the OSD and Office of Management and Budget (OMB) conduct a joint Budget Review of the Air Force BES. It is their objective to identify more cost effective pricing or programming alternatives. These alternatives are presented in Program Budget Decision (PBD) memorandums. [REF 13]

Initially the OSD budget analysts prepare PBD drafts in order to alert service representatives of the impending marks certain accounts will receive. It is imperative that Air Force representatives be proactive and involved in the hearings during this process. Many times an OSD budget analysts will not write a draft PBD if the Air Force can explain away the analyst's concerns. [REF 13] If however a disagreement emerges the Air Force has an opportunity to challenge a draft PBD in the form of comments or reclama.

Once a reclama is issued it is the job of specific representatives, appointed by the Air Force Budget Office, to defend the marked programs. This entire process takes only a few days but its effects can be lasting. Once completed the Director of the Air Force

Budget Office signs a memoranda of either acceptance or rebuttal, in part or whole, to the OSD comptroller. [REF 13] If a rebuttal is initiated the program in question is elevated to the status of a Major Budget Issue (MBI) and is handled by the CSAF, SECAF and the Defense Review Board (DRB).

Once all marks and reclamas are finalized, the signed Air Force PBDs are used to adjust the department BES that is delivered to the OSD for action. The Air Force BES will then be merged with the BESs of the other services into the DOD BES. This final action will conclude the Department of the Air Force budget process. Figure 9 depicts the Air Force's third phase in their budget process.

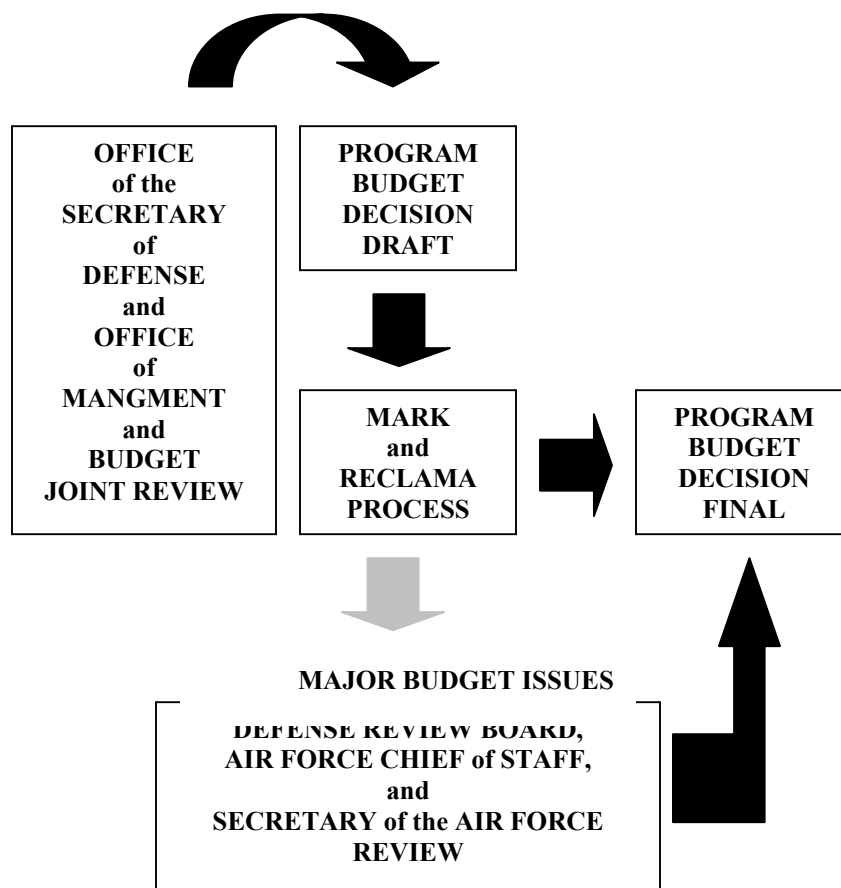


Figure 9. Department of the Air Force Budget Process Phase Three

C. DEPARTMENT OF THE ARMY BUDGET PROCESS

The Army budget process is managed by the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA (FM&C)) through the Director of the Army Budget Office. It is the Director of the Army Budget Office that takes charge in the budgeting and execution phase of the Army's Planning, Programming, Budgeting, and Execution System (PPBES) through the Army Budget Office. The Army Budget Office uses three phases to accomplish its tasks:

- Formulation
- Justification
- Execution

The formulation phase of the budgeting process begins with the development and approval of the Army's BES. It is during this phase that the first two years of the programs in the POM are converted into the departments BES. The Army Budget Office supervises the entire formulation process.

Major Army Commands (MACOMs) and installations, such as airfields, barracks, camps, depots, and other facilities, aid in the development of the BES by providing their financial requests by means of their Command Budget Estimates (CBEs). In the Department of the Army there are about sixteen MACOMS. The following is a list of the MACOMs within the Department of the Army.

- Eighth U.S. Army
- U.S. Army, South
- U.S. Army Corps of Engineers
- U.S. Army Europe
- U.S. Army Information Systems Engineering Command
- U.S. Army Intelligence and Security Command
- U.S. Army Materiel Command
- U.S. Army Medical Command

- U.S. Army Military Traffic Management Command
- U.S. Army Pacific Command
- U.S. Army Special Operations Command
- U.S. Army Training and Doctrine Command
- U.S. Criminal Investigation Command
- U.S. Forces Command
- U.S. Military District of Washington
- U.S. Space and Missile Defense Command

The CBEs, developed by the installations are incorporated into the MACOM's CBE, which is then forwarded to the Program Budget Committee and the Army Resource Board for review. From there it is merged with the program revisions submitted by the Director, Program Analysis, and Evaluation who works directly for the Army Chief of Staff. It is then sent to the Secretary of the Army and the Chief of Staff, Army by the ASA (FM&C) for final approval. Once approved it is the job of the Army Budget Office to forward the Department of the Army BES to the OSD and OMB. Figure 10 shows the DOA budget estimate flow.

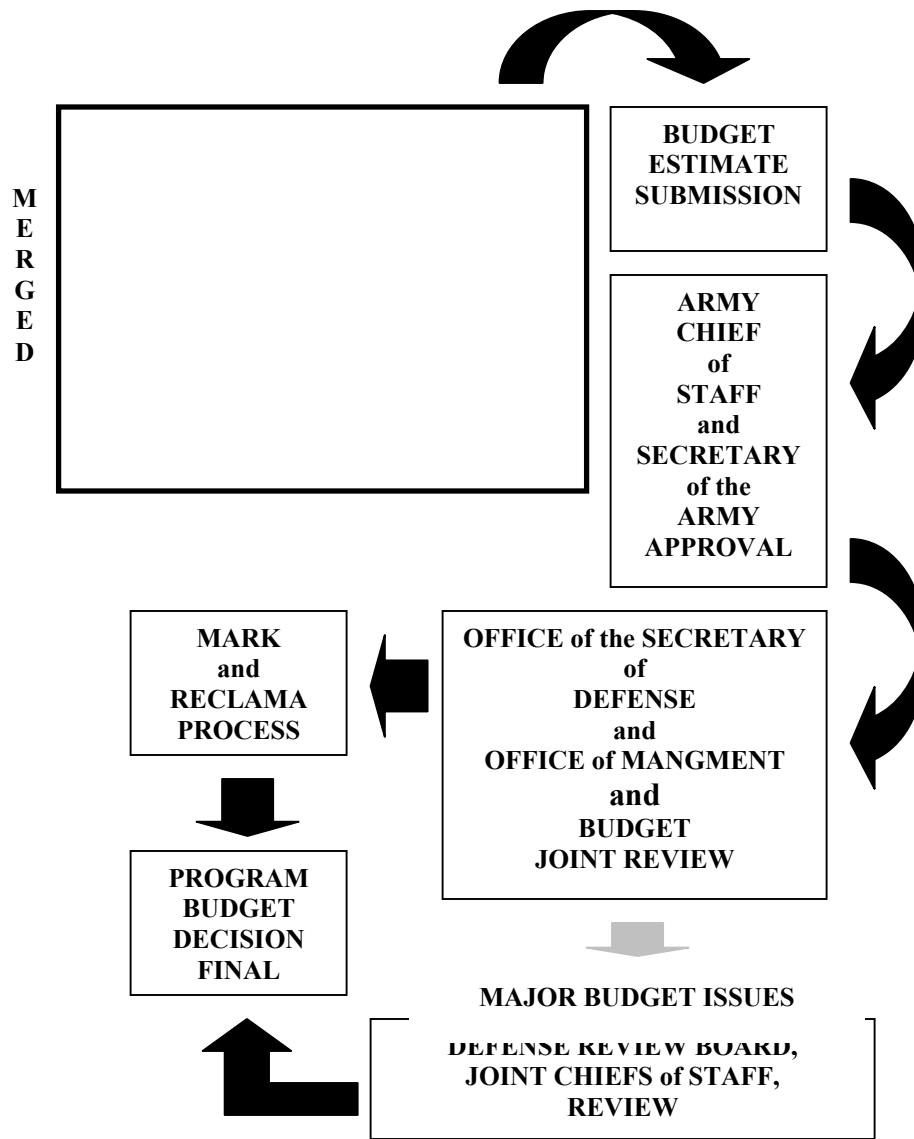


Figure 10. Department of the Army Budget Process Phase One

Once the Army Budget Office forwards the Department of the Army BES to the OSD and OMB, it is reviewed to ensure reasonableness. It is during this period that the estimates submitted by the Department of the Army are either, approved or adjusted. Usually disagreements with adjustments are handled at the lowest level; however, if the dispute persists they are labeled MBI and forwarded to the DRB and Joint Chiefs of Staff for examination. Once the adjustments have been finalized, the results are combined with the other services in order to form the PBD document, which is then sent to the Deputy Secretary of Defense for final approval. The PBD list the required changes that each service must make to their BES. After these changes have been made the services

budget estimates can then be included into the DOD BES and eventually the Presidents Budget (PRESBUD) which in turn marks the end of the Department of the Army's formulation phase.

The second phase of the Department of the Army budget process, budget justification, initially begins after the PRESBUD is submitted to Congress for review. The House Budget Committee and Senate Budget Committee perform the Congressional review. Their goal is to ensure that the PRESBUD is within the discretionary spending caps established by the Omnibus Budget Reconciliation Act of 1990. It is during this period that the Secretary of Defense (SECDEF) and representatives of each service within the DOD testify before the House and Armed Services Committee, Senate Armed Services Committees, and the House and Senate Appropriation Committees in order to justify to Congress the DOD BES legitimacy. To support the SECDEF and the Department of the Army, representatives the Army Budget Office provide detailed budget justification books to the authorizing and appropriations committees as well as any other assistance that might be needed to prevent a congressional adjustment to the DOD BES. Figure 11 depicts the second phase of the Army budget process.

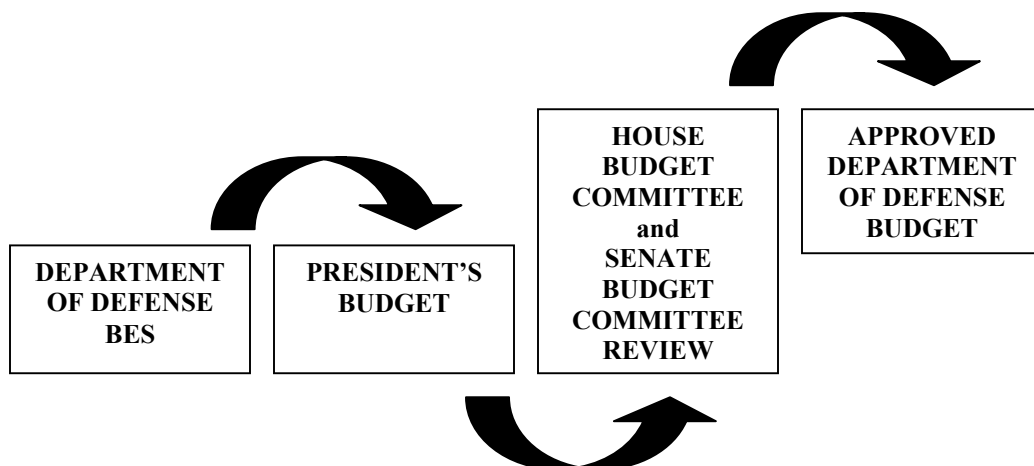


Figure 11. Department of the Army Budget Process Phase Two

The third and final phase of the DOA budget process is the Execution phase. It is the job of the ASA (FM&C) to supervise and direct the financial execution of the funds

appropriated by Congress. By utilizing the CBEs submitted by the MACOMs and installations for guidance the Army Budget Office acting on behalf of the ASA (FM&C) distributes all funds approved by the budget.

D. DEPARTMENT OF THE NAVY BUDGET PROCESS

In order to develop a budget, the Department of the Navy (DON) depends on a decentralized budget formulation process driven by bottom-up responses to top-down controls. In the DON the budget process portion of the PPBS consists of four phases:

- DON Office of the Budget (FMB) Review
- OSD and the OMB Review
- Congressional Review
- Appropriation Enactment and Execution

During the first phase of the DON Budget process, Budget Submitting Offices (BSO) submit budget estimates for the organizations they represent to the FMB. BSOs are also known and referred to as Major Claimants. In the DON, there are about twenty-two Major Claimants. The following is a list of some of the Major Claimants within the DON.

- Administrative Activity Under Secretary of the Navy
- Bureau of Medicine
- Bureau of Naval Personnel
- Commander, Atlantic Fleet
- Commander, Naval Force Europe
- Commander, Pacific Fleet
- Chief of Naval Education and Training
- Field Support Activity
- Military Sealift Command
- Naval Air Systems Command

- Naval Facilities Engineering Command
- Naval Meteorological and Oceanography Command
- Naval Network Operations Command
- Commander, Reserve Forces
- Naval Sea Systems Command
- Naval Security Group
- Naval Supply Systems Command
- Office of Naval Intelligence
- Office of Naval Research
- Space and Naval Warfare Command
- Commandant of the Marine Corps

The submissions by the Major Claimants are developed from the lowest level budget estimates usually referred to as Cost Center Estimates. These Cost Centers are at the lowest tier in the DON financial chain of command. They submit budget estimates to the Activity Comptroller who in turn reviews, revises, and combines the Cost Center Estimates into an Activity Budget. This new consolidated budget is then forwarded to the Major Claimant who will ensure its reasonableness. The Major Claimants will then consolidate the Activity Budgets into one Major Claimant BES and submit it to the Assistant Secretary of the Navy (Financial Management and Comptroller) through the FMB.

Upon receiving the budget submissions from the Major Claimants the FMB will conduct another review of the estimates. If the FMB feels that certain estimates submitted need to be revised they will issue a mark. A mark is basically an alert to the Major Claimant that their budget estimate submissions will be altered. If however there is a dispute over the mark, Major Claimants are permitted to submit a reclama stating their position.

It is only during this phase that the Major Claimants within the DON are provided with an opportunity to state their objectives and priorities for resources in the context of an executable budget. [REF 12] Once the FMB is satisfied with the DON BES they will then forward their version to the Secretary of the Navy (SECNAV) for final approval. Figure 12 depicts flow of this phase.

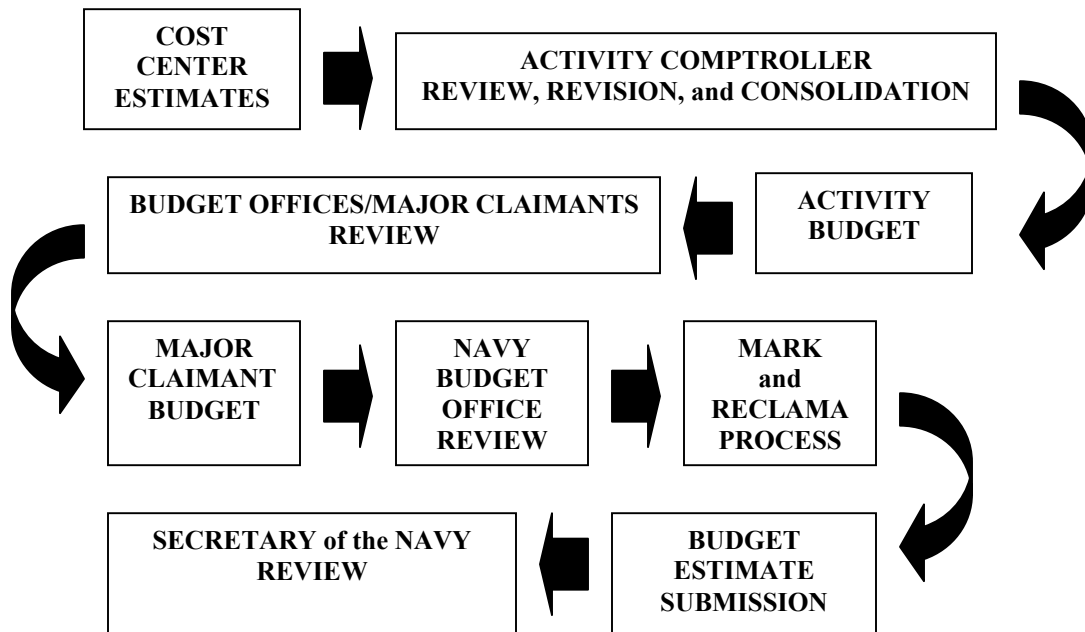


Figure 12. Department of the Navy Budget Process Phase One

Once approved by the SECNAV the BES are then submitted to the OSD and OMB. This initiates the second phase of the DON budget process. It is within this phase that the OSD and OMB conduct their joint review of the DON budget. It is the goal of the OSD and OMB to ensure the reasonableness of the DON budget estimate.

It is during this phase that Program Budget Decisions (PBD) are developed. The PBDs, like the marks issued by the FMB in the first phase of the DON budget process, are lists of requested adjustments. These requests are submitted to each of the services that compose the DON in response to their BES. Initially a draft PBD is issued in order to allow each service to reclama. Once all reclaims have been reviewed and changes have been made the finalized PBDs are developed and issued to the services for action.

Upon making the changes required by the PBDs each service will then resubmit their BES to the OSD and OMB in order to create the DOD budget. The DOD budget will subsequently become part of the President's Budget. This marks the end of the second phase in the DON budget Process. Figure 13 shows the flow of the second phase within the DON budget process.

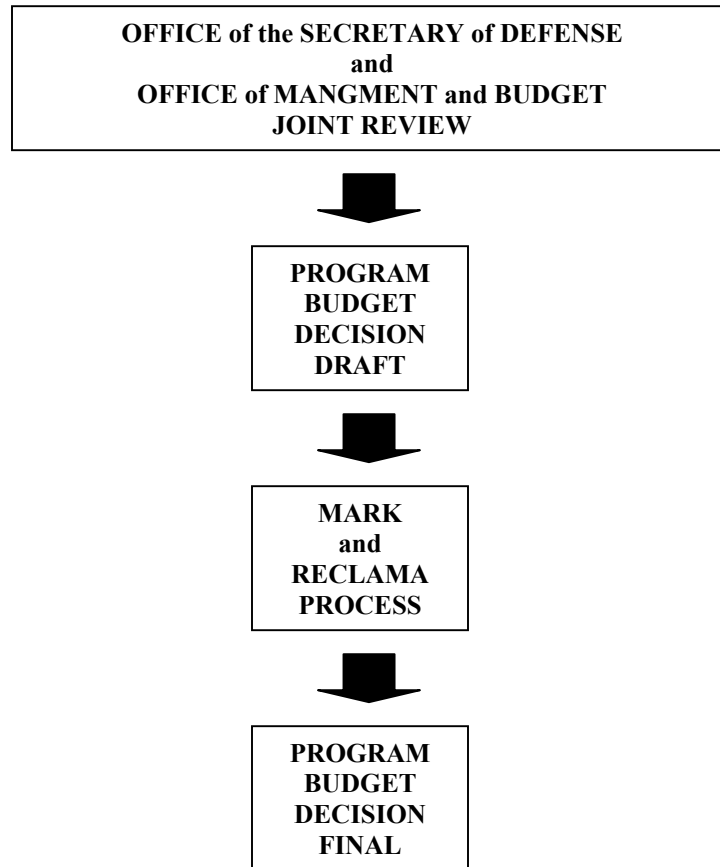


Figure 13. Department of the Navy Budget Process Phase Two

In the third phase of the DON budget process, the PRESBUD is submitted to Congress for review. By the time the budget is ready for this congressional review; it has been reworked and revised many times to make it accurately reflect the DON needs while staying within the DOD budgetary constraints. [REF 1] This is important since the DOD budget will now compete with other departments for funding.

The fourth and final phase of the DON budget process marks the enactment of appropriations by Congress in the DOD Appropriations Bill. This bill, once signed by the President, allows the DON to incur obligations and to make payments out of the Treasury.

Although the budget processes between the Departments of the Air Force, Army and Navy vary, the difficulty of their tasks is the same. In the next chapter, the DON budget is examined in order to better demonstrate the issues each of the military budget offices deal with during the budget process. By looking at the appropriations the DON is required to fund, one will be able to see some of the complexity of the task each budget office undertakes.

V. DEPARTMENT OF THE NAVY APPROPRIATIONS

A. OVERVIEW

The development of the Department of Defense DOD budget begins with the dissemination of the Secretary of Defense's (SECDEF's) Fiscal Guidance Document. This document, which is more commonly referred to as the "top-line" or "Total Obligational Authority" provides each department with a fixed amount that is not to be exceeded when funding their resource requirements. Once the fiscal constraints are received, the Departments of the Army and the Air Force immediately begin formulating their budgets. This, however, is not the case for the Department of the Navy (DON) due to the fact that it, unlike its counterparts, is composed of two services, the Navy and the Marine Corps.

Because fiscal guidance is issued to the Military Departments rather than to the services additional computations must be conducted within the Department of the Navy in order to divide Navy from Marine Corps funding. It is for this reason that the DON receives the largest share of DOD funds. Figure 14 depicts the fiscal guidance disseminated in FY 2001.

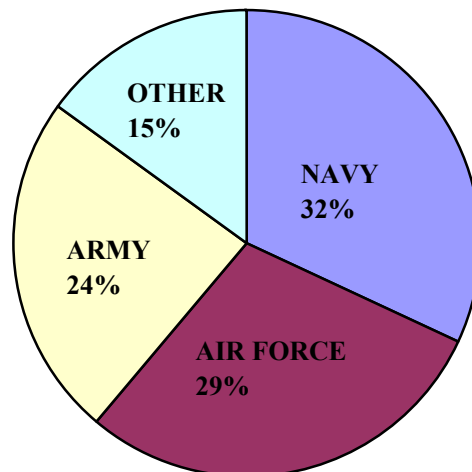


Figure 14. Department of Defense Fiscal Guidance FY 2001

B. APPROPRIATION

An appropriation is a congressional statute that provides an agency with the budget authority to incur obligations and make payments out of the Treasury. In addition an appropriation also specifies what specifically the funds provided are to support. The DON has a total of five major appropriation areas that fund both the Navy and Marine Corps. These areas are:

- Operations and Maintenance (O&M),
- Military Personnel (MilPers)
- Procurement
- Research, Development, Testing, and Evaluation (RDT&E)
- Military Construction (MilCon)

These five areas have been consistently funded in the DON budget with the majority of the funds going to O&M, MilPers, and Procurement. This consistency is best demonstrated in Figure 15.

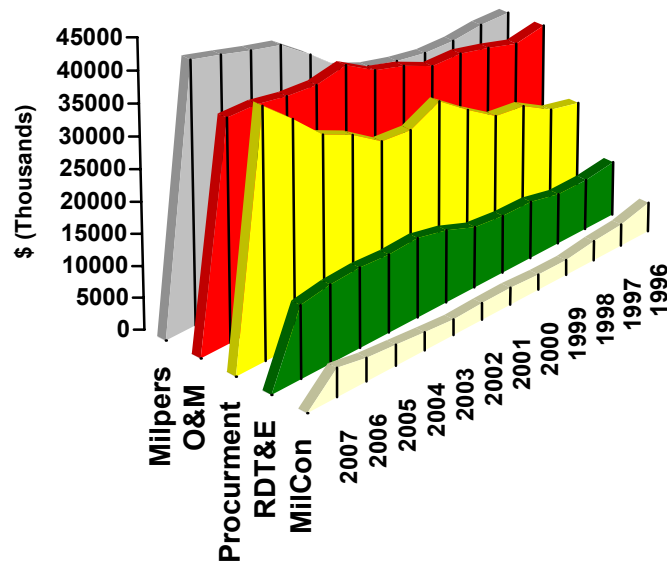


Figure 15. Department of the Navy Appropriated Funds

O&M is usually the most funded of the five major appropriations. It tends to receive between 20-25 percent of the DON budget. The second most funded appropriation in the DON is MilPers. It closely follows the O&M appropriation often matching it but usually differing by a couple of percentage points. Procurement is the third highest funded appropriation area in the DON. The percent of the DON budget it receives often resides in the high teens. The RDT&E appropriation generally receives around 10 percent of the DON budget, give or take a percentage point. All other appropriations, to including MilCon, account for the rest of the funds. Figure 16 is an example of this funding distribution for fiscal years 1996 to 2002.

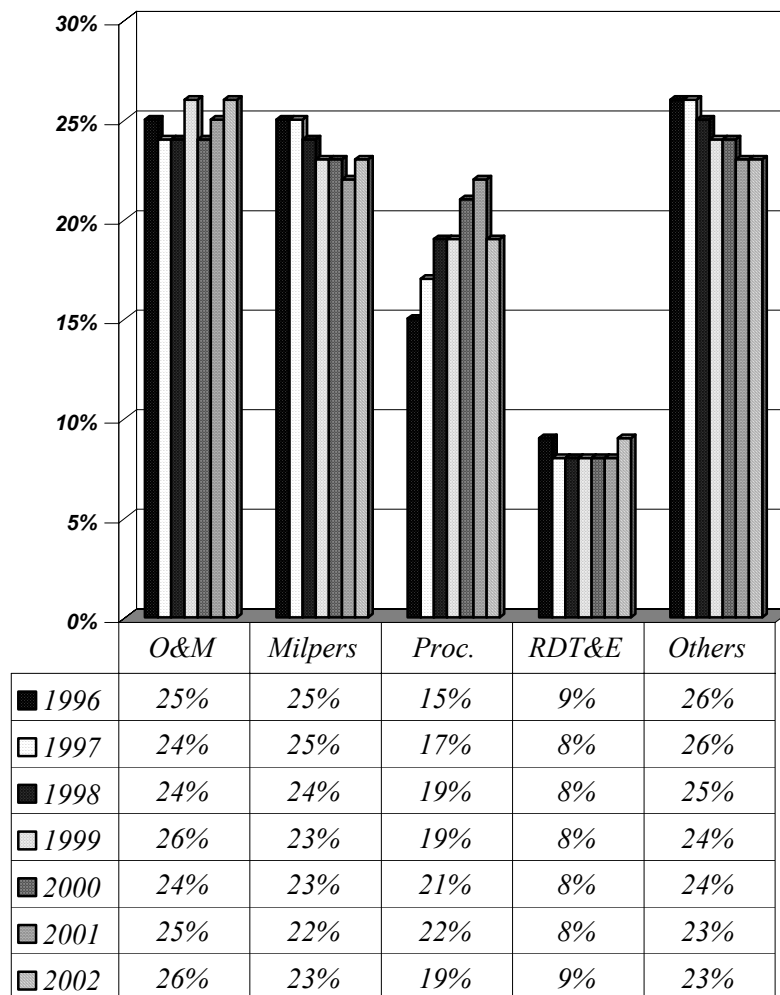


Figure 16. Department of the Navy Appropriations by Percent

The following section will give a more in-depth look at the DON major appropriations excluding the MilCon appropriation.

1. MILPERS

The DON MilPers appropriation is divided into two categories, active and reserve. The active MilPers is composed of Military Personnel, Navy (MPN) and Military Personnel, Marine Corps, (MPMC) Appropriations. The reserve MilPers consists of Reserve Personnel, Navy (RPN), and Reserve Personnel, Marine Corps (RPMC) Appropriations. Figure 17 depicts this relationship.

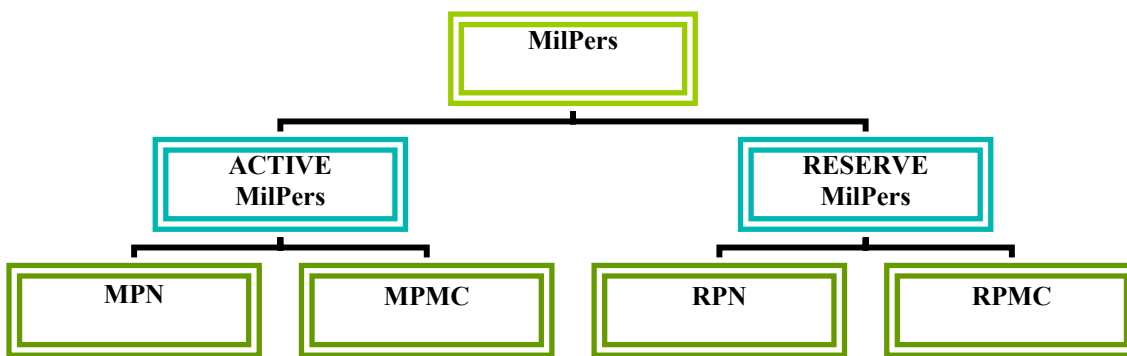


Figure 17. Department of the Navy MilPers Structure

The budget activities funded by the MPN and MPMC include pay and allowances of officers, pay and allowances of enlisted, pay and allowances of midshipman, subsistence of enlisted personnel, permanent change of station travel, and other military personnel costs. The budget activities funded by the RPN and RPMC appropriations include unit and individual training and other training and support. The following table shows each MilPers appropriation and its budget activities.

MPN	MPMC
• Pay and Allowances Officers	• Pay and Allowances Officers
• Pay and Allowances Enlisted	• Pay and Allowances Enlisted
• Pay and Allowances Midshipmen	• Pay and Allowances Midshipmen
• Subsistence of Enlisted Personnel	• Subsistence of Enlisted Personnel
• Permanent Change of Station Travel	• Permanent Change of Station Travel

- Other Military Personnel Costs

- Other Military Personnel Costs

RPN

RPMC

- Unit and Individual Training
- Other Training and Support

- Unit and Individual Training
- Other Training and Support

Table 1. MilPers Appropriation and Budget Activity

When determining the MilPers budget estimate, analysts use an average cost basis. The numbers of people promoted, departing, arriving and already serving are all factors that affect the level of the MilPers budget estimate. The allotment for pay and allowances, which requires the most from the MilPers account, is established from these estimates.

2. O&M

The DON O&M appropriation, like the MilPers appropriation is divided into active and reserve. The active category includes the Operations and Maintenance, Navy (OMN) and Operations and Maintenance, Marine Corps (OMMC) Appropriations. The reserve category includes Operations and Maintenance, Navy Reserve (OMNR) and Operations and Maintenance, Marine Corps Reserve (OMMCR) Appropriations. Figure 18 depicts this relationship.

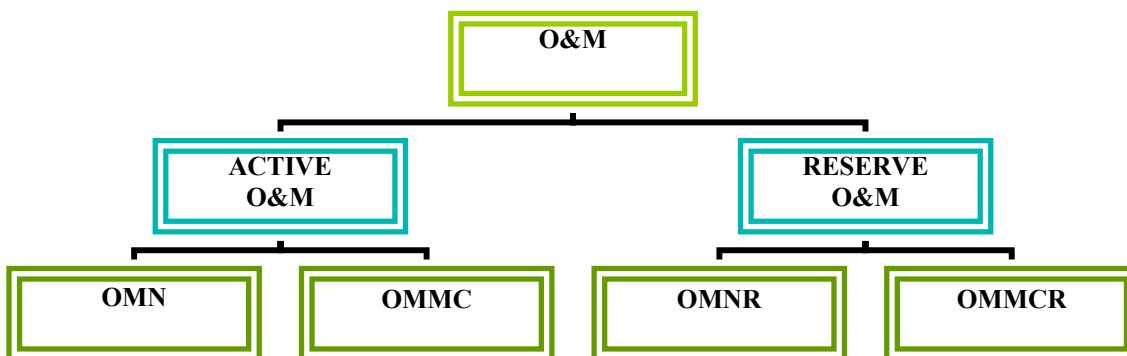


Figure 18. Department of the Navy O&M Structure

The budget activities funded by the OMN and the OMNR appropriations include operating forces, mobilization, training and recruiting, and administration and service

wide support. The budget activities funded by the OMMC appropriation are similar to the OMN and OMNR appropriations but do not include mobilization. The OMMCR appropriation funds operating forces and administration and service wide support.

The O&M account is very diverse and includes funding for everything from civilian pay to fuel, paper, and ammunition-all the items, which the DON consumes as an operating entity and most of the expenses it incurs to keep operating. [REF 14] It is easier to state what is not in the account then what is in it. The following table shows the budget activities under which all the items of the O&M account fall.

OMN	OMMC
<ul style="list-style-type: none"> • Operating Forces • Mobilization • Training and Recruiting • Administration/Servicewide Support 	<ul style="list-style-type: none"> • Operating Forces • Training and Recruiting • Administration and Servicewide Support
OMNR	OMMCR
<ul style="list-style-type: none"> • Operating Forces • Mobilization • Training and Recruiting • Administration/Servicewide Support 	<ul style="list-style-type: none"> • Operating Forces • Administration and Servicewide Support

Table 2. O&M Appropriation and Budget Activity

The O&M account is by far the most encompassing of the five major appropriations in the DON. It includes funding for items such as administrative expenses, labor charges, and temporary active duty travel for both military and civilians.

The amount funded in the O&M account depends on two procedures, Formula and Historical Costing. In the Formula procedure amounts are determined by calculating the expenses needed to operate, such as the cost of steaming hours for the Atlantic fleet.

[REF 14] In the Historical Costing procedure amounts are determined by making cost estimation based on costs already incurred.

When determining the reasonableness of these estimated amounts analysts depend on past experience, work measurement standards, cost accounting information, employment trends, price level changes, and prior budget execution performance. [REF 14] Selecting the best measurement technique however depends on which program is being estimated. Cost data and work measurement data are, for example best used when examining ship and aircraft overhauls, fleet operations, flight observations, medical care, supply distribution and real property maintenance. [REF 14]

3. Procurement

The DON Procurement appropriation, area encompasses a number of appropriations. Aircraft Procurement, Navy (APN) Appropriation, Weapons Procurement, Navy (WPN) Appropriation, Shipbuilding and Conversion, Navy (SCN) Appropriation, Other Procurement, Navy (OPN) Appropriation, Procurement, Marine Corps (PMC) Appropriation, and Procurement of Ammunition, Navy and Marine Corps (PANMC) Appropriation are all included under the Procurement appropriation. Figure 19 and the following table depict this relationship and the budget activities within the Procurement appropriation.

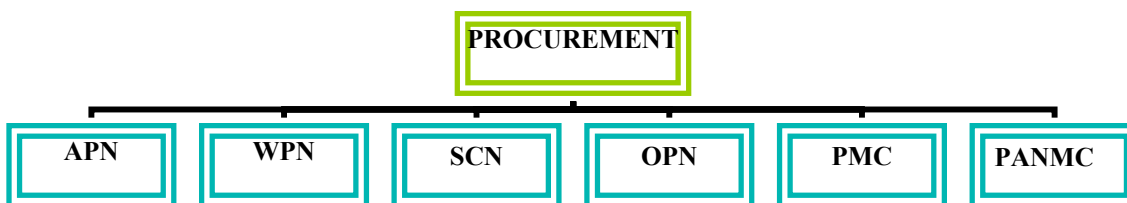


Figure 19. Department of the Navy Procurement Structure

APN	WPN
<ul style="list-style-type: none"> • Combat Aircraft • Airlift Aircraft • Trainer Aircraft • Other Aircraft • Modification of Aircraft • Aircraft Spare and Repair Parts • Aircraft Support Equipment and Facilities 	<ul style="list-style-type: none"> • Ballistic Missiles • Other Missiles • Other Weapons • Torpedoes and Related Equipment • Spares and Repair Kits
OPN	PMC
<ul style="list-style-type: none"> • Ships Support Equipment • Communication and Electronics Equipment • Aviation Support Equipment • Ordnance Support Equipment • Civil Engineering Support Equipment • Supply Support Equipment • Personnel and Command Support Equipment • Spares and Repair Parts 	<ul style="list-style-type: none"> • Weapons and Combat Vehicles • Guided Missiles and Equipment • Comm. and Electronic Equipment • Support Vehicles • Engineer and Other Equipment • Spares and Repair Parts
SCN	PANMC
<ul style="list-style-type: none"> • Fleet Ballistic Missile Ships • Other Warships • Amphibious Ships • Mine Warfare and Patrol Ships • Auxiliaries, Craft and Prior Year Program 	<ul style="list-style-type: none"> • Ammunition, Navy • Ammunition, Marine Corps
Costs	

Table 3. Department of the Navy Procurement Appropriation and Budget Activity

The planning of pricing and milestone schedules in the acquisition cycle of DON programs is dependent on accurate procurement appropriation funding. The production schedules, inventory requirements, sparing philosophies and lead-time are all taken into account when determining how much of the budget should be allotted to this appropriation. It is however the determination of an accurate cost per unit estimates that is most important to analysts.

Cost per unit estimates for procurement items are determined in two ways, depending on whether the item is newly acquired or already in development. The cost estimates for existing items is supplied by the cost accounting system while cost estimation for new items is developed through the use of engineering cost estimates. [REF 14] In addition, cost per unit estimates for newly acquired items also use factors such as amount of inventory on hand, projected consumption rate, requirement for spare parts, status of RDT&E programs, production time schedules, slippage of production schedules, required lead time, mobilization base and approval for production to aid in the determination of the most accurate cost per unit.

4. RDT&E

The DON RDT&E appropriation is funded to the Navy. The budget activities included within this appropriation include basic research, applied research, advanced technology development, demonstration and validation, engineering and manufacturing. The following table shows these budget activities more clearly.

RD TEN

- Basic Research
- Applied Research
- Advanced Technology Development
- Demonstration and Validation
- Engineering and Manufacturing Development
- RDTE Management Support
- Operational Systems Development

Table 4. RDT&E Appropriation and Budget Activity

The budget estimates for the RDT&E appropriation tend to be fixed across the DOD, despite some annual fluctuations depending on variations in budget climate. [REF 14] In the DON funds are distributed around 10 percent, give or take a percentage point. Analysts have determined that allotting 10 percent of the budget to the RDT&E appropriation insures that the DON can meet the needs of the department of the future while not overtaxing the department of the present. As stated by Jerry L. McCaffery:

Historical logic indicates that an investment of under 10 percent in this account indicates that the [DON] is not investing in enough weapons development to keep up with potential competitors in the long run; investments of over 10 percent of the [DON's] budget raises concern about the ability of the organization to successfully man, deploy, and maintain the range of weaponry under development. [REF 14]

In addition to the 10 percent rule, analysts annually review each program's financial balance in order to determine the status of their obligated and expended balances. This is by far the most effective way of determining how well a program is performing." Unexpended and over obligated funds are automatic warnings to analysts that a program needs to be reviewed. Programs that have unexpended funds may be experiencing some unforeseen setbacks while programs that show signs of over obligating may have made errors in their original estimates.

C. BLUE-GREEN SPLIT

When determining how to divide the money between the Navy and the Marine Corps, the DON depends on a procedure known as the “blue-green split.” This procedure is based on a simple mechanical formula, which was established by the Navy and the Marine Corps in a letter of agreement 25 years ago. [REF 7] Although the dividing of funds is consistent, it is not fixed and can be altered significantly in favor of one service or the other by the Secretary of the Navy (SECNAV). On average, the division allocates 86 percent of the funds to the Navy and 14 percent to the Corps.

D. MARINE CORPS APPROPRIATIONS

The Department of the Navy funds that are spent by or on behalf of the Marine Corps are amassed into two accounts. The first being the “green” account and the second being the “blue in support of green” account.

The green account consists of dollars, controlled directly by the Commandant of the Marine Corps. In addition it also contains the resources of appropriations that are shared with the Navy. The following is a list of the accounts that fall under the green account:

ACCOUNTS CONTROLLED BY THE MARINE CORPS ACCOUNTS

- Military Personnel, Marine Corps
- Reserve Personnel, Marine Corps
- Operations and Maintenance, Marine Corps
- Operations and Maintenance, Marine Corps Reserve
- Procurement, Marine Corps

ACCOUNTS CONTROLLED BY THE MARINE CORPS AND THE NAVY

- Military Construction
- Military Construction, Reserve
- Family Housing
- Research, Development, Testing, and Evaluation

- Procurement of Ammunition

The second account is the blue in support of green account, which is composed of funds provided by the Navy that are both in “direct” and “indirect” support of the Marine Corps. The direct support funds are provided directly from the Navy’s budget. This provides the funds required to procure, operate, and maintain Marine Corps aircraft. The indirect support aspect of the blue in support of green account is comprised of funds that the Navy would have to spend even if the Marine Corps did not exist. [REF 15] The blue in support of green account funds amphibious ships and their equipment, Naval Surface Fire Support, Corpsmen, and Chaplains. Figure 20 demonstrates the division of funds in the DON during FY 2000.

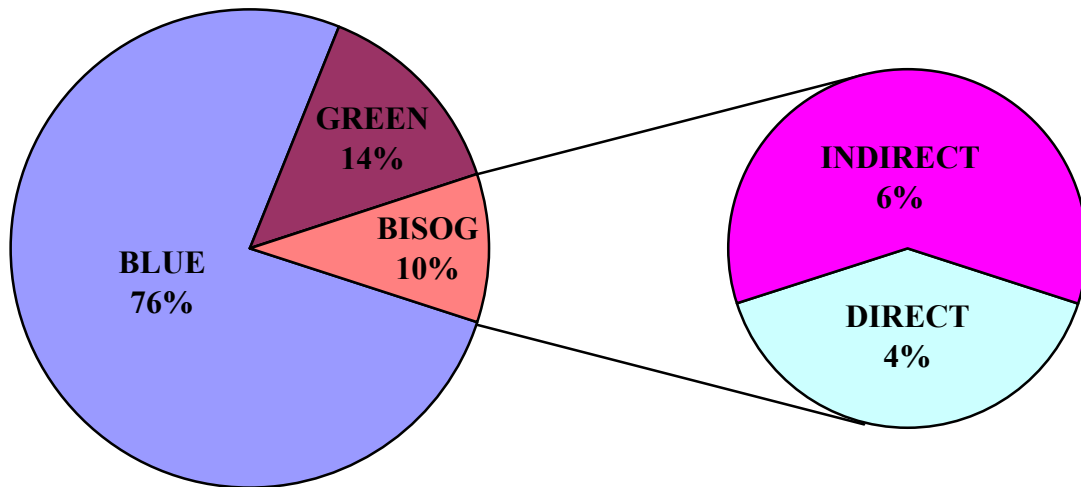


Figure 20. Department of the Navy Funding for FY 2000

Although both accounts go through negotiations, the focus in the thesis will be on the green account.

As stated earlier, the DON is different from its fellow departments due to the fact that it must fund two services. In keeping with the macro to micro process of this thesis the following chapter will look at the Marine Corps budget and how the DON budget office influences its funding decisions. This will be done by looking at the process used by the Marine Corps to develop their Program Objective Memorandum.

VI. MARINE CORPS

A. OVERVIEW

As stated earlier the Program Objective Memorandum (POM), which covers six years, is not the same as a budget since it is more focused on the future than the present. It is however the source from which the Budget Estimate Submission (BES), which is basically the first year of the POM, is taken. Therefore by understanding the Marine Corps POM process we can understand most of their budget process as well.

B. CORE

Once the blue-green split is completed the Marine Corps can begin to build their POM, which in turn is used to build the budget. The first thing the Marine Corps does, once their amount of the Department of the Navy (DON) Total Obligational Authority is determined, is to pay the bills associated with the green account. Funds must first be set aside for resources that have already been committed to by the Marine Corps in previous years. These funds are referred to as the “core.” The core is simply the summation of the previous funding decisions that the Marine Corps does not want or need to revisit. Its purpose is to help the Marine Corps to:

- Fence entitlements
- Maintain programmatic stability for well defined, executing programs
- Recognize the cost of doing business
- Establish a programmatic baseline
- Create a discretionary portion of program [REF 8]

The core is developed from the minimum requirements of each account that make up the green account. In short this category includes all the “must fund” fixed costs of the command. [REF 15]

C. GREEN ACCOUNTS

In the Military Personnel and Reserve Personnel accounts analysts determine the cost of maintaining the Marine Corps at its authorized end strength. In addition these

analysts price bonus plans, accession phasing, and all of the pieces that must fit together to ensure that the bills are covered [REF 7] Since the Marine Corps is a people intensive service, it is no surprise that this account assumes the majority of the funds in the core.

Funds to be set aside in Operations and Maintenance (O&M), for both active duty and reserve accounts are the most difficult to determine. Many things are paid for with the O&M dollars. So many different people spend these funds in so many different ways that it is an accountant's nightmare. [REF 7] If there are any disagreements with the funds that make up the core it is safe to assume that they will occur within this account.

In the Procurement and Procurement of Ammunition accounts, analysts determine minimum requirements based on two procedures. In the Procurement accounts analysts meet minimum requirements by continuing to fund obligated programs. Analysts for the Procurement of Ammunition account determine minimum costs by looking at training and combat requirements. The training requirements are consistent while the combat requirements are simply replenished when used.

In the Research, Development, Testing, and Evaluation account items that the Marine Corps intends to buy later, and those which they have already started to invest in are funded. [REF 7] At the same time the analysts for this account assess the minimum requirements to fund the Science and Technology facet of the Marine Corps. These dollars will be used to support the Marine Corps Warfighting Lab and various advanced concept exploration programs. [REF 7]

The Military Construction and Family Housing accounts factor in both the current inventory and the resources needed to begin construction on the most urgent requirements of the Marine Corps when determining minimum required amounts. This account makes up the least amount of the core. Typically, it is also the last bill to be paid by the Commandant.

Once the minimum requirements of the green account are identified the core is set. The Marine Corps will only use this money to fund the requirements determined in the core-setting process. The funds that remain are referred to as the discretionary funds and are available to the Commandant to satisfy all of the demands of the operating forces and supporting establishment of the Marine Corps. [REF 7]

D. DISCRETIONARY FUNDS

The discretionary funds of the Marine Corps are identified during the planning phase of their Planning, Programming, and Budgeting System. These funds are only a small portion of the resources received during the blue-green split. In the POM for FY 2002-FY2007 for example just about five percent of the Marine Corps' funds were designated as discretionary funds. This equated to approximately five billion dollars.

The programming phase of the Marine Corps is basically a period of internal competition. Whereas the planning phase determines the discretionary fund amount, the programming phase decides to whom the funds should go. Requests for the discretionary funds are called "initiatives."

In the POM for FY 2002-FY2007, there were nearly 525 initiatives. In order to fund all of these, the Marine Corps would have had to spend over \$17 billion more than they had estimated. As a result, over three fourths of the 525 initiatives were not funded.

The goal of the Marine Corps, as it is with the other three services, is to get the most from their money. In order to do this they must ensure that the requirements receiving the funds are the most beneficial. The core is not questioned since the programs it funds have already been found to be beneficial in previous year reviews. The challenge is selecting, from the numerous initiatives submitted, the ones that will most benefit the Marine Corps in the future.

E. BUDGET ESTIMATE PROCESS

1. Program Evaluation Groups (PEG)

To make the task of sorting out the "winners" from the "losers" manageable, the Marine Corps process begins by grouping initiatives in logical categories and evaluating them. [REF 8] Within each grouping are committees known as PEGs. These groups are composed of lieutenant colonels, majors, and civilian equivalents who are tasked with conducting the initial evaluation of the initiatives. For an initiative to receive resources in a POM, it must first compete successfully within its own PEG. [REF 8] The following is a list of the PEGs used during the POM for FY 2002-FY2007 and an example for each:

- Investment
 - Advanced Amphibious Assault Vehicle
- Manpower
 - Officer and Enlisted Salaries
- Military Construction
 - Building Facilities on Base
- Family Housing
 - Maintenance of Family Quarters
- Operations and Maintenance
 - Travel Pay

PEGs are not fiscally constrained. It is their job to hear briefings on selected initiatives that represent different Marine Corps missions or sponsors, judge priorities and relative benefit among the selected initiatives, and consider any objections from functional sponsors. [REF 9] In addition, each PEG prioritizes the initiatives in terms of its benefit to the overall mission of the Marine Corps, rather than by cost.

The Marine Corps defines benefit as a perception of value based on facts, discussion, experience, and expectations. With this in mind each PEG must rank the initiatives on a scale of 0 to 100, with 0 being the worst benefit and 100 being the best. These lists are then forwarded to the POM Working Groups for benefit/cost analysis. Figure 21 depicts an example of the PEG ranking process used.

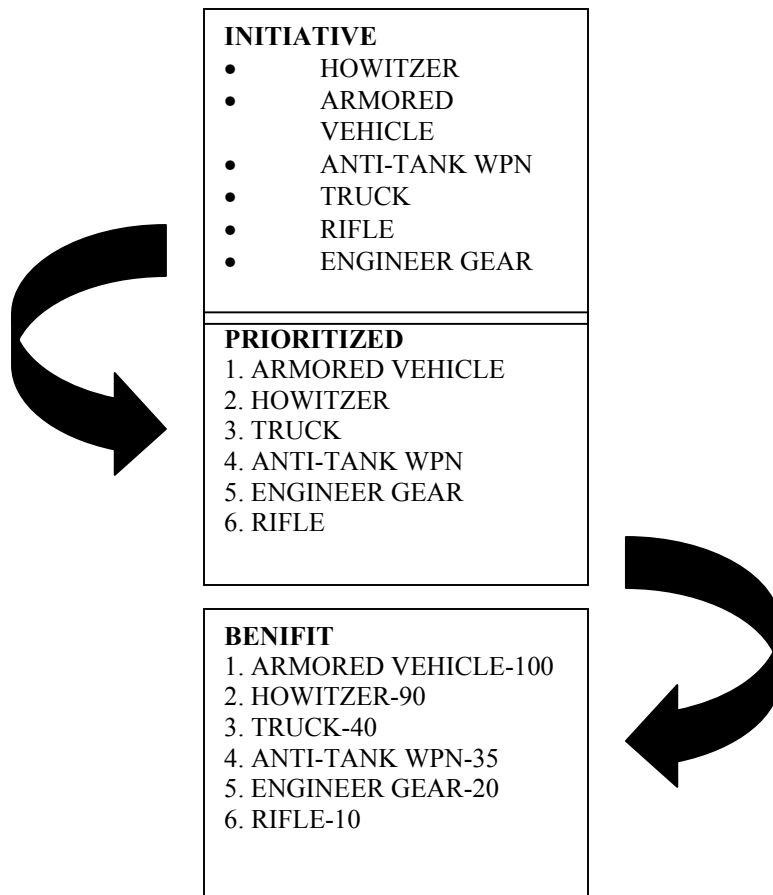


Figure 21. Program Evaluation Groups Ranking Process Example

2. Pom Working Group (PWG)

The PWG is composed of the following members:

- Program & Resources
- Marine Corps Combat Development Center
- Marine Corps Systems Commands
- Plans, Policies, and Operations
- Manpower and Reserve Affairs
- Installations and Logistics
- C4
- Intel

Once the results from the PEGs are received, it is the job of the PWG to merge “science” with “art” in order to select the most beneficial initiatives. [REF 8] To do this, they must combine objective information with subjective opinion.

The PWG process begins with the consolidation of the PEG lists into a single benefit-only list. By taking the same rankings produced by the PEGs and placing them in value order from highest to lowest, the PWG creates a merged list. Figure 22 is an example of this process.

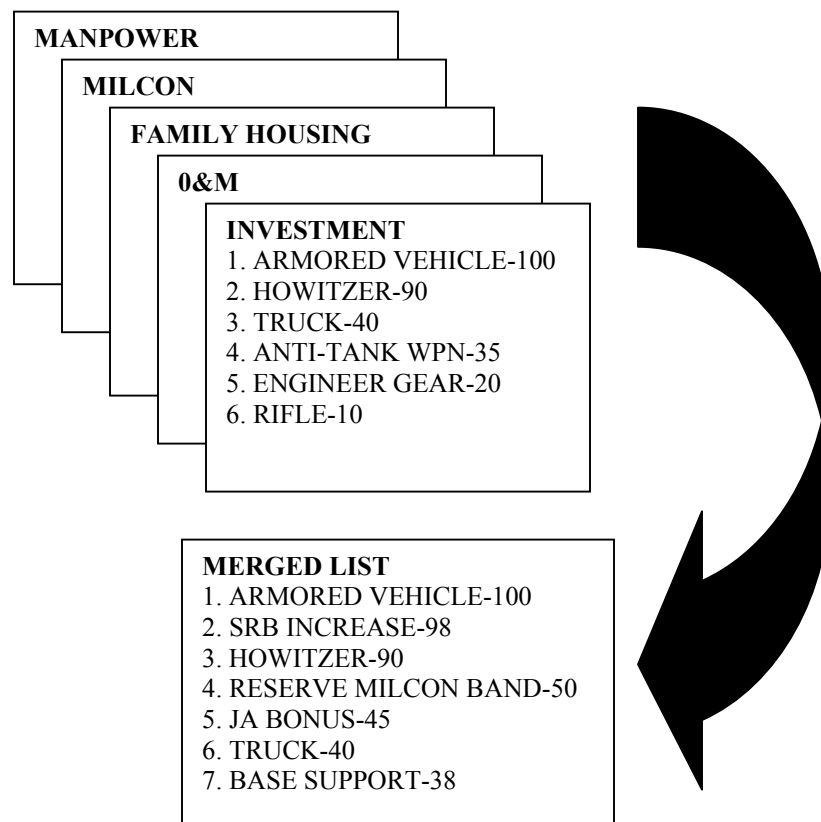


Figure 22. POM Working Group Merged List Process Example

The PWG then refines the list by taking the benefit value of each individual initiative and dividing it by its cost. This will readjust the order of the list by presenting one based on both benefit and cost rather than just cost. This is the science of the process. In addition to this refinement, the PWG makes further adjustments based on the

professional knowledge, judgment and experience of the lieutenant colonels, majors, and civilians that make up the group. This is the art. Once each of the initiatives is properly ranked the PWG initiates a process called “order to buy.” Figure 23 is an example of this process up to that point.

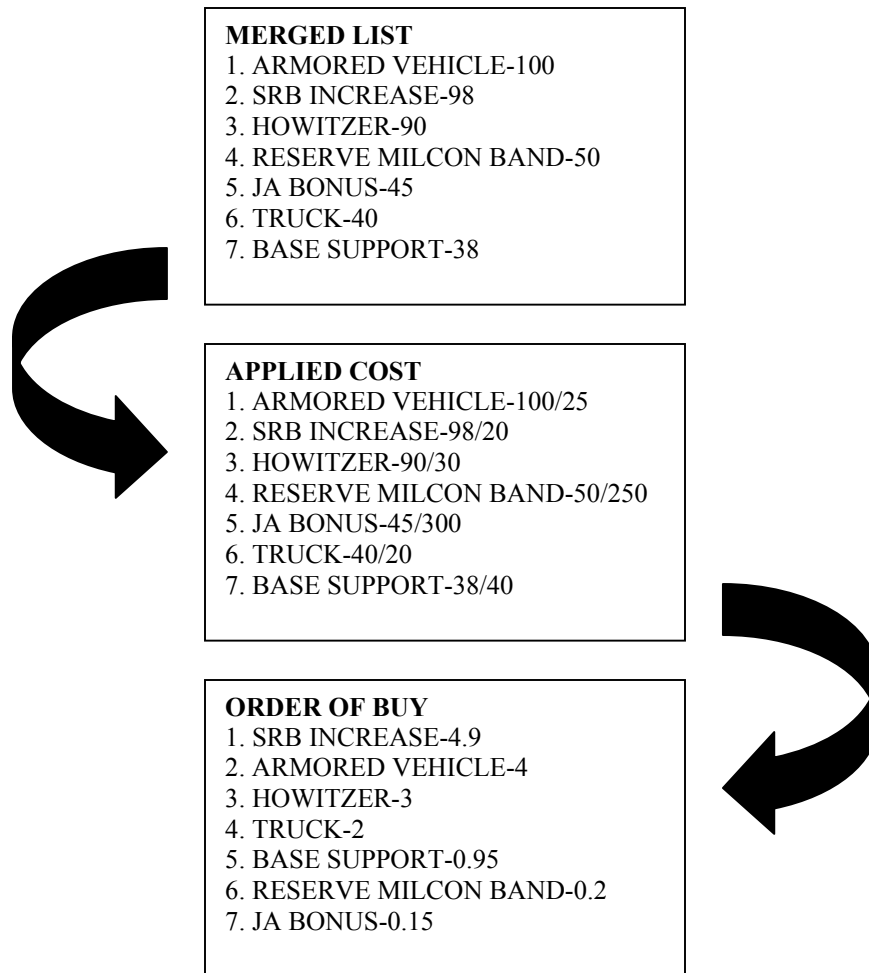


Figure 23. POM Working Group Order to Buy Set-Up Example

In the order to buy process, the PWG begins at the top of the list of newly ranked initiatives and starts “spending” the discretionary funds. This process continues until all discretionary funds are spent. Figure 24 is an example of this process.

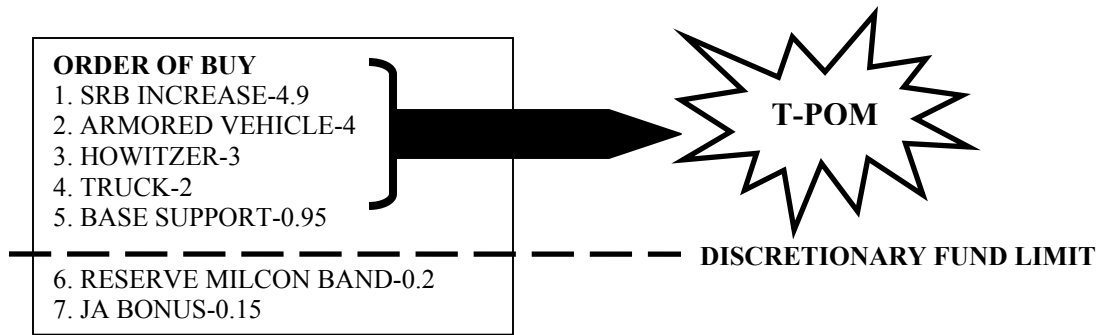


Figure 24. POM Working Group Order to Buy Process Example

3. Program Review Group (PRG)

The results of the PWG are submitted to the PRG where they are combined with the core for final assessment. It is the PRG's objective to assess the warfighting capabilities, verify compliance with guidance, resolve intermediate issues, and make corresponding program adjustments. Once completed, the PRG will then form a single Marine Corps POM, which will then be forwarded to the Commandant along with any major issues that need to be resolved. The PRG is composed of the following members:

- Deputy Commandant Program and Resources
- Commanding General Marine Corps Combat Development Center
- Deputy Commandant Manpower and Reserve Affairs
- Deputy Commandant Aviation
- Deputy Commandant Plans, Policies, and Operations
- Commander of Forces Atlantic
- Commander of Forces Pacific
- Commander of Forces Europe
- Deputy Commandant Installations and Logistics
- Director, C4
- Director, Intelligence

- Public Affairs
 - Vice Chief of Naval Research
4. **Commandant of the Marine Corps (CMC)**

The product that the CMC receives from the PRG is called the Tentative-Program Objective Memorandum or T-POM. Figure 25 is a visual demonstration of the process described above

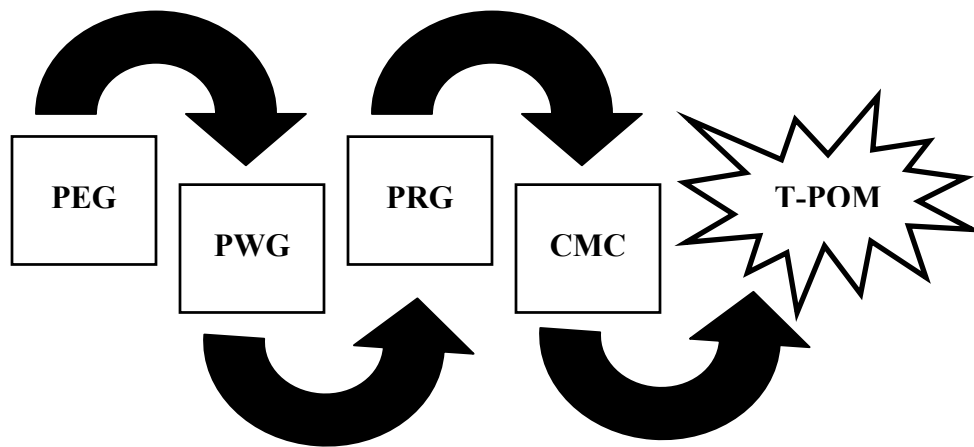


Figure 25. Marine Corps Tentative-POM Process

F. INITIATIVES

When determining which initiative to support, members of both the PEGs and the PWG look for certain criteria. Although each analyst may have his own specific standards of determination, as a whole, they tend to look for the same things.

The first thing they look for when determining validity of an initiative is whether or not it provides a concise, specific statement of fiscal need and is based on sound funding estimates. They tend to favor initiatives that identify tradeoffs, offsets, and overlaps, and avoid blanket claims, slogans, and buzzwords. They are more likely to support “initiatives that define their programs in simple terms and clearly explain their impact on the Marine Corps. In addition they tend to look down upon claims of cost savings that cannot be identified by activity, amount, or year. In more simple terms the

more quantifiable the information supporting an initiative is the more likely it will be ranked high

G. TIMELINE

The timeframe in which the Marine Corps POM and Budget are developed is somewhat consistent. The entire process takes about a year and builds on results from the past. POM 2002 will be reviewed in order to give a better understanding of the process time line.

The development of the Marine Corps POM 2002 began in the summer of 1999 around the July timeframe. This was where the planning portion of the Planning, Programming, and Budgeting System (PPBS) took place. It was during this time that the core, which was based on the previous year's BES, was set and a POM development plan was issued.

The programming phase of the PPBS took place from August 1999 to May of 2000. It was during this time that the T-POM was developed. August 1999 through January 2000 was allotted to the development of initiatives. Using the guidance set forth in the POM development plan, resource requests were prepared for submission to the PEGs. The PEG along with the PWG and PRG all were given about a month to perform their duties.

The month of February was dedicated to the PEG. It was during this month that initiatives were ranked according to their benefit. The PWG performed their evaluation in March using the fiscal guidance determined in the blue-green split that came out in the same month. The PRG conducted their business in April, after which they submitted their results to the CMC.

Upon reviewing the T-POM the CMC made his final assessments and submitted the T-POM to the Secretary of the Navy near the end of May. The T-POM was approved by the SECNAV in June of that year and was forwarded to the Office of the Secretary of Defense as part of the DON's POM. This began the budgeting phase of the Marine Corps, which falls within the DON process.

Once approved the first year of the POM was turned into the DON's BES. From there, it was included into the President Budget (PRESBUD), which came out in February of 2001. The PRESBUD was then submitted, to Congress for review. The entire process was completed by October 1, the beginning of fiscal year 2002. Figure 26 depicts this timeline as it was prior to August 2, 2001.

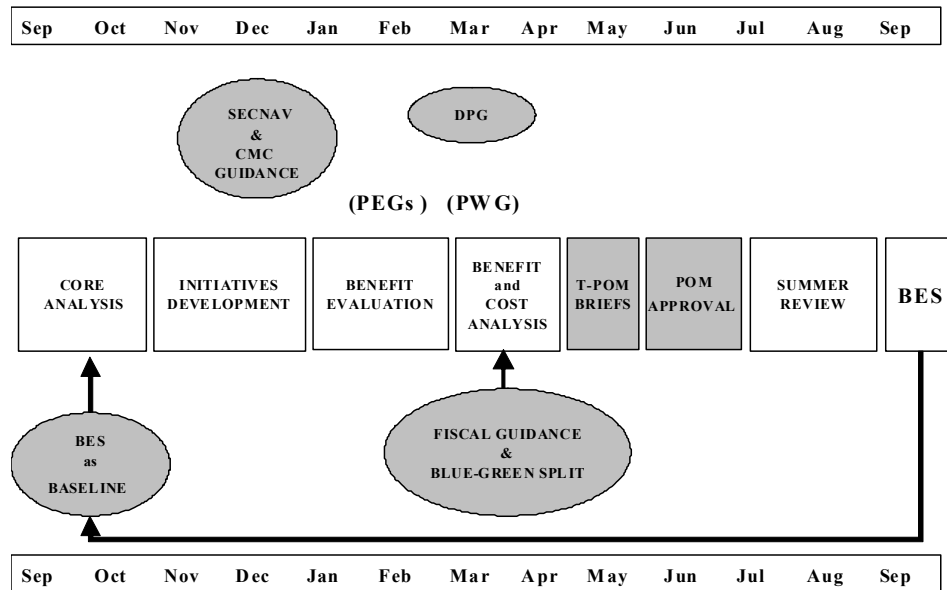


Figure 26. Marine Corps Budget Process Timeline

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VII. CONCLUSION

It is important to emphasize that the PPBS depicted in this thesis is based on the process that was in being prior to August 2001. In an effort to reduce redundancies, the DOD now conducts a concurrent program and budget review. Service POMs are no longer submitted to the OSD for review independently in May. As of now, each service is required to submit both its BES and POM simultaneously in August. This however does not alter the responsibilities of the budget offices nor does it change the way funds are appropriated.

A. OVERVIEW

The Planning, Programming, and Budget System is guided by the impending and current threats that the United States may be forced to deal with. These threats may require the United States to act or they may not, but deciding whether or not to prepare for them is never in question.

If it were possible, the Department of Defense (DOD) would prepare its forces to meet every threat, but since it is only allotted a certain amount of funding, it is forced to determine what threats are the most important. It is therefore essential and critical that the DOD select the threats deemed to be the most deserving of military efforts. In short, the DOD must decide in what direction the Departments of the Air Force, Army, and Navy must go when planning the future of their services. This guidance may not be completely in line with the intended and sometimes required direction that each service feels they need to go. It is therefore imperative, that prior to issuing the DOD budget guidance, each service is provided with the ability to voice their needs to the Secretary of Defense (SECDEF).

It is for this reason that the DOD PPBS utilizes a “bottom-up” requirements request process with “top-down” guidance. By simply identifying the threats and setting the fiscal guidance, the SECDEF affords each service a certain amount of control over its destiny by allowing it to decide what programs to fund. If however the service fails to provide the proper justification to the SECDEF on how that program meets the strategic objectives of the United States, the funds requested are in danger of being allocated to

another service. In order to protect themselves from such a fate, the Departments of the Air Force, Army, and Navy enlist the aid of a budget office.

B. BUDGET OFFICES

The Departments of Air Force, Army, and Navy budget offices aid in the development of budgets of each of the services for which they are responsible. Individually these budgets are subsets of the more encompassing budget known as the DOD's budget. It is therefore essential that the budget offices ensure that the Program Objective Memorandum (POM) and Budget Estimate Submission (BES) that their departments prepare in financial terms a plan that meets the objectives identified in their strategic planning documents as well as those in the DOD's.

C. DEPARTMENT OF THE NAVY

This task is far more difficult than it seems, especially for the Department of the Navy (DON). Determining how the funds allocated by the DOD should be divided is a difficult task for the DON due to the fact that it is composed of both the Navy and the Marine Corps. In order to determine the amount of funding each service may use in the development of their service specific POM and BES, the DON utilizes the "blue-green split." It is from this funding split that the fiscal constraints imposed on each of the services that make up the DON are developed.

These fiscal constraints force the Navy and Marine Corps to prioritize their needs. Only those programs deemed most in line with the DOD and DON will be funded. It is therefore imperative that each service develop their POM and BES in accordance with the rules of thumb each of the deciding analysts tends to adhere to when deciding whether to accept, increase, decrease, or refuse a funding request. By presenting the programs in such a way, the Navy and Marine Corps are more likely to receive their requests.

D. MARINE CORPS

Of the services within the DON the Marine Corps is by far the better at presenting their fiscal requests in such a way that budget analysts accommodate them more often. By looking at two factors of the POM 02 one can see how effective the Marine Corps process for the development of their POM and BES is. The first thing is that the Marine

Corps has had fewer issues at the SECDEF level marked for resolution than any other service. The following depicts this.

ISSUES MARKED FOR RESOLUTION POM 02

<u>SERVICE</u>	<u>ISSUES</u>	<u>COST</u>
NAVY	15 issues	\$8.4B
USAF	31 issues	\$10.3B
ARMY	13 issues	\$7.8B
MARINE CORPS	0 issues	\$0

The second thing is that the Marine Corps also has the least amount of post program adjustments directed by the Office of the Secretary of Defense. The following depicts this.

POST PROGRAM ADJUSTMENTS

<u>SERVICE</u>	<u>COST</u>	<u>% OF REQUEST LOST</u>
NAVY	\$800M	(18%)
USAF	\$2.3B	(52%)
ARMY	\$850M	(23%)
MARINE CORPS	\$50M	(.07%)

The Marine Corps is a perfect example of a service that understands what the analysts within their department's budget office are looking for in a POM and BES request. By understanding the budget office to which they submit the Marine Corps more often than not gets what they request. It is therefore essential that each service understand their budget offices to the best of their ability.

E. RECOMMENDATIONS FOR FURTHER STUDY

The objective of each service's budget office is to create a budget request to be submitted to the SECDEF for incorporation into the President's Budget. In order to do this, each budget office must build a budget that conforms to the information presented in the POM. Although this process is composed of standardized steps and events that have

been well documented, the day-to-day operation of the budget office is not so well known.

Each budget office uses a variety of internally developed procedures to develop a budget. Laws, regulations, time constraints and office routines have led to a standard operational procedure for each of the budget offices within the DOD. It is recommended that a further study be made in an attempt to identify these procedures.

In addition, since changes to a budget request are inevitable, it is recommended that the budget process issues presented in this thesis be amplified. It is recommended that the DON budget request be tracked from the claimant stage through the DON Budget Office review stage in order to document what types of marks are made, their size and frequency, the reasons why they are made and the appeals claimants make to the budget marks by focusing on the four major accounts: Operations and Maintenance, Procurement, Military Personnel and Research, Development, Testing and Evaluation.

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